Household Finance Corporation 1980 Annual Report

About the Cover

Packaging, signs and logos are a company's most identifiable symbols, and for Household Finance Corporation, they stand for much more than identification. They represent high-quality products and services that touch almost every lifestyle, reflecting management's pride in serving eight out of 10 families in the United States every year. They represent a dedication to the satisfaction of customers and an emphasis on financial security for Household's shareholders. Finally, they represent one of the nation's largest multi-industry, diversified corporations.

Household conducts a balance of diversified, fundamental businesses: financial services and insurance, merchandising, manufacturing and transportation. This diversification, which began some 20 years ago, is designed to achieve steady, balanced growth in revenues, earnings and dividends by capitalizing on existing corporate strengths, complementing and utilizing the resources and management skills of the Corporation. Strongly positioned and experienced in these basic businesses, Household is involved in consumer loans, insurance, consumer banking, commercial leasing and financing; supermarkets and retail merchandising of everyday consumer goods and home furnishings; wholesale distribution of consumer goods to franchised outlets; the manufacturing of outdoor living, commercial refrigeration and industrial products; car and truck rental and leasing and air travel.

Just as signs represent the many operations of Household, so the 78,000 employees of Household convey the personality of the Corporation. It is the people of Household Finance Corporation, past and present, together with the Corporation's philosophies that have earned Household's companies their good names. With these many assets, Household will meet the challenges of the 1980s with confidence in a prosperous tomorrow.

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Financial Highlights

All amounts other than per share data are stated in millions.

	1980	1979	Percent Change
Volume			
Finance receivables outstanding at December 31:			
Consumer	$3,308.3	$3,605.3	− 8%
Purchased vehicle contracts	538.7	490.9	+10
Commercial	387.2	277.7	+39
Total	4,234.2	4,373.9	− 3
Merchandising net sales and revenues	4,462.4	3,918.8	+14
Manufacturing net sales and revenues	265.1	245.6	+ 8
Transportation revenues:			
Rental and Leasing	366.6	310.8	+18
Air Travel	126.5		
Earnings before Unrealized Foreign Exchange Gains and Losses			
Finance	$ 94.9	$ 85.1	+12%
Merchandising	43.0	57.1	−25
Manufacturing	17.5	19.6	−10
Transportation:			
Rental and Leasing	17.9	17.6	+ 1
Air Travel	1.5		
Corporate	(28.3)	(23.6)	+20
Total	146.5	155.8	− 6
Unrealized Foreign Exchange Gains (Losses) Less Related Tax Effects			
Finance	(5.0)	5.3	
Manufacturing	(0.5)	0.1	
Total	(5.5)	5.4	
Net Income	$ 141.0	$ 161.2	−13%
Earnings Per Common Share			
Before unrealized foreign exchange gains (losses):			
Primary basis	$ 3.00	$ 3.21	− 7%
Fully diluted basis	2.86	3.04	− 6
Net Income:			
Primary	2.88	3.33	−14
Fully diluted	2.75	3.15	−13
Dividends Declared Per Common Share	$ 1.575	$ 1.500	+ 5%
Average Number of Common Shares Outstanding			
Actual	46.4	46.1	+ 1%
Fully diluted basis	51.3	51.3	

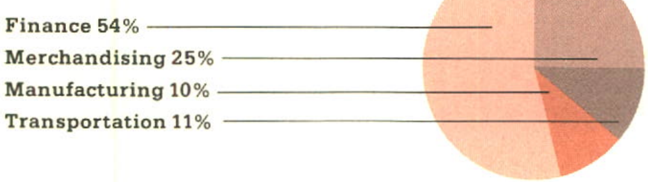
Household Finance Corporation

Household Finance Corporation is one of the nation's largest multi-industry corporations with over $6.8 billion in assets and 78,000 employees. In 1980, with overall sales and revenues of $6.2 billion, Household earned $146.5 million before the effects of *unrealized* foreign exchange gains and losses.

Headquartered in Prospect Heights, Illinois, Household is one of the 100 largest companies in the nation, according to *Forbes* magazine, and one of the 10 largest companies in the Chicago area.

Serving eight out of 10 families in the United States every year, Household provides products and services that touch almost every lifestyle by conducting a balance of diversified businesses: financial services and insurance, merchandising, manufacturing and transportation.

% of 1980 Earnings
Earnings are before *unrealized* foreign exchange effects and expenses from Corporate Operations.



Finance With finance receivables of $4.2 billion, HFC provides a broad range of financial services, including consumer loans, real estate secured loans, purchase of sales finance contracts, income tax services, consumer banking and commercial financing. Through more than 2,000 offices in the United States, Canada, the United Kingdom, Puerto Rico, Japan and Australia, HFC serves 2.3 million customers with loans for such purposes as debt consolidation, home improvement, education, travel and leisure activities. Alexander Hamilton Life Insurance Company of America provides ordinary life insurance, credit life insurance and credit accident and health insurance to more than 2 million people. HFC Leasing Inc. acquires and leases major capital equipment.

Merchandising City Products Corporation is the 12th largest retailing company in the United States, according to *Fortune* magazine, with annual sales exceeding $4.4 billion. Its diversified divisions engage in retail merchandising through 1,207 company-owned stores and wholesale distribution of consumer goods to 3,427 franchised stores. Geographically dispersed, but with major operations concentrated in the rapidly growing Sunbelt, these merchandising activities primarily emphasize everyday merchandise at value prices. Annual sales of the retail T. G. & Y. general merchandise and Vons supermarket chains are each over $1.6 billion.

Manufacturing King-Seeley Thermos Co. is a diversified manufacturing company with annual sales exceeding $265 million. Operating 18 plants in the United States, Canada, the United Kingdom and Italy, the company serves the consumer, commercial and industrial markets with such products as Thermos® vacuumware, Structo® barbecue grills, Scotsman® ice systems, Halsey Taylor® water coolers and drinking fountains, Almco® metal finishing equipment, Albion casters and King-Seeley cooking appliance controls.

Transportation National Car Rental System, Inc. is the third largest car rental company in the United States, with revenues exceeding $365 million. Under the Lend Lease name, the company is engaged in car leasing and truck rental and leasing. The oldest and largest air carrier of passengers, freight and mail within Alaska, Wien Air Alaska, Inc. also flies to points in the Pacific Northwest.

Consumer Finance
1,989 branch offices in the United States, Canada, the United Kingdom, Japan and represented through 61 offices in Australia.

HFC

HFC Trust Limited
(United Kingdom) consumer finance and banking.

HFC Trust

Alexander Hamilton Life Insurance Company of America
ordinary life and credit insurance.

Alexander Hamilton

HFC Leasing Inc.
commercial leasing—financing of major equipment such as commercial aircraft, ocean-going vessels, railcars, mining equipment and computers.

HFC Leasing

Keystone Savings and Loan Association
15 offices in Southern California.

KEYSTONE SAVINGS & LOAN

Industrial Banks-Thrifts-Trusts
consumer finance and banking—12 banks in Colorado, 1 thrift in Utah, 1 trust in Canada.

Money Management Institute
consumer education—booklets and filmstrips on all aspects of personal and family money management.

MMI

Retail:
T. G. & Y.
general merchandise chain—915 stores in 28 states.

TG&Y

Vons
163 supermarkets in Southern California and Nevada.

VONS

Whites (company-owned)
hard goods chain—88 stores in 7 states.

Whites

Home Furnishings:
Huffman-Koos
14 stores in New Jersey and New York.

Huffman Koos

Barker's
16 stores in the Los Angeles area.

BARKER BROS.

Colby's
4 stores in the Chicago area.

Colby's

American Furniture
7 stores in the El Paso area.

American

Wholesale:
Ben Franklin
variety chain—1,801 independently owned stores in 49 states.

BEN FRANKLIN

Coast-to-Coast
1,203 franchised hardware stores in 31 states.

Coast to Coast

Whites (franchised)
hard goods chain—423 stores in 16 states.

Whites

Outdoor Living:
Thermos®
manufacturer of vacuumware, insulated jugs and ice chests, plastic insulated tableware, snack jars and lunch kits.

THERMOS

Structo®
manufacturer of charcoal and gas barbecue grills.

STRUCTO

Metallized Products
manufacturer of custom vacuum-metallized films and all-weather emergency and sportsman's blankets.

METALLIZED PRODUCTS

Commercial Refrigeration:
Scotsman®
manufacturer of commercial ice systems.

SCOTSMAN

Halsey Taylor®
manufacturer of refrigerated water coolers and drinking fountains.

Halsey Taylor

Industrial:
Almco®
manufacturer of industrial metal finishing equipment and grey iron castings.

ALMCO

Albion
manufacturer of industrial casters and wheels for the materials handling industry; special urethane products.

albion

King-Seeley
manufacturer of control mechanisms for the cooking appliance and other industries.

KING-SEELEY

Rental and Leasing:
National Car Rental
represented at more than 2,000 locations in 91 countries and territories.

NATIONAL CAR RENTAL

Lend Lease
car leasing, truck rental and leasing.

Lend Lease

Mud Cat
a portable dredge used for environmental control of lakes and industrial settling ponds.

MUD CAT

Air Travel:
Wien Air Alaska
air travel between points in Alaska, Seattle and Portland.

Wien Air Alaska

Chairman's and President's Letter

D. C. Clark, G. R. Ellis

Results Rapid inflation, high interest rates, a generally weak economy and the continuing impact of the Corporation's adoption of the last-in, first-out (LIFO) method for valuing domestic inventories resulted in reduced earnings for 1980. Earnings were down 6% to $146.5 million, or $2.86 per fully diluted share of common stock, before *unrealized* foreign exchange gains and losses. Earnings before *unrealized* foreign exchange gains and losses represented an 11.6% return on shareholders' average book equity in 1980, compared with 13.1% in 1979. Net income after *unrealized* foreign exchange gains and losses was down 13% to $141.0 million, or $2.75 per fully diluted share.

We continue to emphasize earnings before *unrealized* foreign exchange gains and losses as we believe they more accurately represent the results of the Corporation's operations; *unrealized* gains and losses have no current impact on cash flow, and their ultimate realization is highly uncertain. We are encouraged that the Financial Accounting Standards Board has proposed a revision which, if adopted, will eliminate the fluctuating effect of *unrealized* foreign exchange gains and losses from the determination of Household's net income.

During the year total receivables in the Finance Business experienced a planned decrease of 3%, while Merchandising sales increased 14%, Manufacturing sales grew 8% and Rental and Leasing revenues rose 18%. A detailed commentary on the results of Household's businesses is provided in the Management Discussion and Analysis and Operating Review for each business.

LIFO Results in 1980 reflect the continuing impact of the Corporation's adoption in 1979 of LIFO accounting for inventories. This increased impact of adopting LIFO was principally the result of higher inflation. LIFO reduced 1980 and 1979 earnings by approximately $25.4 million, or 50¢ per fully diluted share, and $16.9 million, or 33¢ per fully diluted share, respectively, and reduced shareholders' equity at December 31, 1980 by approximately $42.3 million. A discussion of the LIFO impact is provided on page 35. The purpose of the change to LIFO was to achieve a better matching of current costs with current revenues in an inflationary environment. Although reducing reported earnings, LIFO provides substantial positive cash flow benefits through the reduction of income tax payments and a corresponding reduction in borrowings. With the high cost of borrowed funds experienced since Household adopted LIFO, these cash flow benefits have been especially valuable. By December 31, 1980, the cumulative federal and state income tax savings totaled more than $40 million.

The Economy Results for 1980 were also negatively impacted by a depressed economy. Earlier in 1980, the widely anticipated recession was seen as the cyclical cure for inflation by reducing consumer demand. Additionally, the recession was expected to curb high interest rates; these expectations were not met. The bank prime interest rate reached 20% in April, fell to 10¾% in July and began another climb during the third quarter. Fourth quarter interest rates surged to unprecedented levels. In 1980, for the total corporation, the increase in interest expense related to higher interest rates, both short- and long-term, was approximately $47 million.

Dividends A new quarterly cash dividend rate of $0.40 per share of common stock was declared by the Board of Directors in September. This increase raised the annual common stock dividend rate from $1.55 to $1.60. We have paid quarterly cash dividends for 55 consecutive years since our incorporation in 1925, and in 1980 we achieved a 28-year record of annual increases in the amount paid each year per share of common stock, after adjusting for stock dividends and splits. While the number of favorable dividend actions—increases, extras and resumptions—by other companies was down in 1980 and unfavorable actions—decreases and omissions—up, we are pleased to continue our record of dividend increases especially in such a weakened economic environment.

Management Joseph W. James was elected Executive Vice President of the Corporation by Household's Board of Directors, effective March 1, 1981. Mr. James has served since 1973 as President and Chief Executive Officer of National Car Rental System, Inc. and was elected a Director of Household in 1974.

Bemiss A. Rolfs has been appointed to succeed Mr. James as President and Chief Executive Officer of National Car, effective March 1, 1981; Mr. Rolfs has served as Executive Vice President—Operations since 1978.

During 1980, James D. Pinkerton was appointed Senior Vice President—Administration and Secretary; Mr. Pinkerton was elected Secretary in 1972 and had served as Vice President—Administration and Secretary since 1978.

Buel Clifton was appointed Executive Vice President—U.S. Operations for the Finance Division; Mr. Clifton joined HFC in 1946 and had served as Senior Vice President—Regional General Manager since 1971.

During the year Household was saddened by the deaths of Walter Kinka, Executive Vice President—U.S. Operations for the Finance Division, and James M. Newgent, President of T.G. & Y. general merchandise stores. Both gentlemen contributed many years of outstanding service to the Corporation. Mr. Newgent was succeeded by Dan S. Kelly, previously Senior Vice President—Store Operations, as President of T.G. & Y.

The Corporation was again saddened in January 1981 by the death of H. E. MacDonald, Chief Executive Officer of Household from 1951 to 1972. Among the outstanding contributions of Mr. MacDonald's tenure was a six-fold growth in consumer finance receivables. Additionally, Mr. MacDonald began a program of diversification in 1961 that led Household Finance Corporation from a single-operation company to one of the nation's largest multi-industry corporations.

Corporate Strategy Household has diversified over the last 20 years and today is involved in merchandising, manufacturing, transportation, insurance and financial services in addition to the consumer loan business from which the company originated over 100 years ago. Household has also expanded geographically and today is one of the nation's largest multi-industry and multinational corporations.

Household has achieved strong positions in a balance of major, basic businesses. Our diversification provides less risk of interest rate sensitivity and service and product obsolescence and greater flexibility in today's environment of economic and social change. Additionally, this diversification is designed to achieve steady, balanced growth in earnings and dividends for our shareholders. Our services and products, from real estate secured loans to everyday merchandise at value prices, are designed not only to meet the needs of today's consumer but to weather economic downturns and periods of recession and inflation.

We are an acquisition-minded company, and our success lies in our ability to recognize opportunities and our flexibility to move quickly to take advantage of them. While we have stated that we are looking for an appropriate manufacturing acquisition, we continue to seek every opportunity to maximize our shareholders' return through selective acquisitions enhancing any of our major businesses.

Outlook As we complete the first year of a new decade—a year typified by extremely high inflation, high interest rates and a weakened economy in general—it is difficult not to be apprehensive about 1981. We expect continued double-digit inflation with minimal, if any, economic growth. While we expect average interest rates to be slightly lower than those experienced at the end of 1980, we do expect double-digit interest rates to prevail throughout 1981. Nonetheless, recalling the difficult circumstances of 1980, we cannot help but have some optimism going forward. Our confidence rests in increasing public recognition of the need to encourage business investment and to control government regulation and spending. Most importantly, we believe our financial resources combined with the enthusiasm of our many dedicated employees will help us meet the challenges of the near and distant future.

G. R. Ellis
Chairman of the Board and
Chief Executive Officer

D. C. Clark
President

February 11, 1981

Per Share Market Information

Common Stock

Household Finance Corporation common stock is listed on the New York Stock Exchange and Midwest Stock Exchange. It also has unlisted trading privileges on the Boston, Pacific and PBW Stock Exchanges. Call and put options are traded on the American Stock Exchange.

Common stock ticker symbol—HFC

Preferred Stock

Household has two classes of preferred stock. The \$2.375 and \$2.50 series of cumulative convertible voting preferred stock are both listed on the New York Stock Exchange, and holders of these shares are entitled to receive, out of funds legally available for that purpose, dividends in cash at their respective rates before any dividends are declared or paid on the common stock. Additionally, under the most restrictive provisions of certain loan agreements and indentures under which Household's long-term debt is outstanding, Household may not pay cash dividends on any shares of common or preferred stock unless, following such distribution, its consolidated aggregate assets, as defined, equal at least 125% of consolidated liabilities, as defined. At December 31, 1980, this percentage was 134%, and consolidated retained earnings free of restrictions and available to pay dividends totaled approximately \$333.2 million.

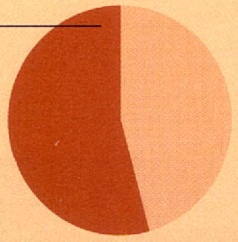
Market prices are stated in dollars.		1980			1979		
		Market Price		Dividends	Market Price		Dividends
	Quarter	High	Low	Paid	High	Low	Paid
Common Stock	**1st**	**18½**	**13⅝**	**\$0.3875**	19¼	17⅝	\$0.3625
	2nd	**18¼**	**14⅞**	**0.3875**	20⅜	17⅝	0.3625
	3rd	**19¾**	**17⅝**	**0.3875**	22	19½	0.3625
	4th	**18¾**	**15¼**	**0.4000**	20⅞	16¾	0.3875
Total Dividends Paid				**\$1.5625**			\$1.4750
\$2.375 Convertible Preferred Stock							
Shares are convertible into	**1st**	**41½**	**31**	**\$0.59375**	43	39½	\$0.59375
common at rate of 2¼ shares	**2nd**	**40⅛**	**34**	**0.59375**	43	39½	0.59375
of common for each share of	**3rd**	**43⅝**	**39⅝**	**0.59375**	48⅛	43⅝	0.59375
preferred	**4th**	**41½**	**34¼**	**0.59375**	46	38	0.59375
Total Dividends Paid				**\$2.375**			\$2.375
\$2.50 Convertible Preferred Stock							
Shares are convertible into	**1st**	**28½**	**20¾**	**\$0.625**	31⅝	29½	\$0.625
common at rate of 1½ shares	**2nd**	**29**	**22**	**0.625**	32¾	28¾	0.625
of common for each share of	**3rd**	**29¾**	**27⅜**	**0.625**	33½	32	0.625
preferred	**4th**	**28**	**22⅞**	**0.625**	33⅜	27	0.625
Total Dividends Paid				**\$2.50**			\$2.50

	1980	1979
Shares Outstanding at December 31		
Common	**46,590,907**	46,298,290
\$2.375 Preferred	**544,824**	615,651
\$2.50 Preferred	**2,275,376**	2,356,592
Shareholders of Record at December 31		
Common	**28,529**	27,461
\$2.375 Preferred	**2,597**	2,812
\$2.50 Preferred	**3,154**	3,284
Total	**34,280**	33,557

Management Discussion and Analysis

Finance

54% of 1980 Earnings



Results of Operations Total finance receivables at the end of 1980 were $4.2 billion, decreasing 3% from $4.4 billion in 1979. Consumer receivables decreased 8% in 1980 as part of an overall effort to redirect assets into more profitable areas by de-emphasizing the lower-profit smaller loan and retail sales finance areas and emphasizing higher-profit real estate secured loans. Consumer receivables grew 15% during 1979 and 11% during 1978.

Earnings, excluding the effects of *unrealized* foreign exchange gains and losses, increased 12% in 1980 from $85.1 million to $94.9 million. Earnings in 1978 were $96.8 million. Net income after *unrealized* foreign exchange gains and losses was $89.9 million in 1980, $90.4 million in 1979 and $74.4 million in 1978. A full discussion of Household's philosophy on foreign exchange exposure is provided on page 37.

Finance Business earnings are primarily a function of receivables outstanding, operating expense control and the cost of borrowed funds. Credit insurance premium income is a function of that component of receivables outstanding on which credit insurance is generally written. This component includes primarily smaller loans which were intentionally de-emphasized in 1980 after expanding in 1979. Operating expenses, excluding interest expense, are largely a function of consumer loan volume. Operating expenses, as a percent of average consumer receivables, were 11.3% in 1980, 12.1% in 1979 and 11.9% in 1978. The decline in the operating expense percentage in 1980 reflects consolidation of operations and overall expense control programs instituted as part of the planned contraction of consumer receivables. Net chargeoffs as a percent of average consumer receivables increased in 1980, reflecting the adverse economic conditions, including increased consumer bankruptcies.

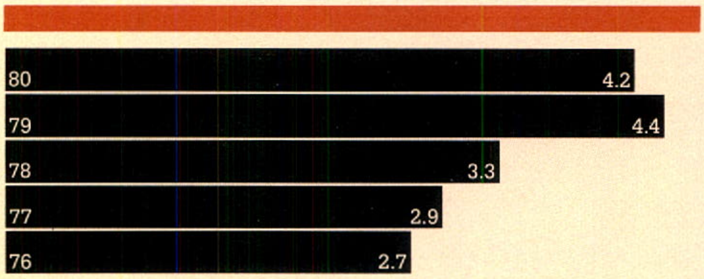
Finance Business
Selected Financial Data

Total Finance (millions of dollars)	**1980**	1979	1978	1977	1976
Revenues	**$ 959.6**	$ 842.6	$ 739.8	$ 677.3	$ 577.2
Earnings before *unrealized* foreign exchange gains and losses	**94.9**	85.1	96.8	94.6	82.8
Income	**89.9**	90.4	74.4	72.5	83.2
Total assets	**5,561.7**	5,665.2	4,493.3	4,039.2	3,518.0
Consumer Finance					
Receivables outstanding at year end (millions of dollars)	**3,308**	3,605	3,137	2,837	2,636
Number of customers (thousands)	**2,265**	2,789	2,683	2,530	2,425
Average size of loans made (dollars)	**2,355**	1,788	1,610	1,544	1,479
Average monthly income of borrower (dollars)	**1,582**	1,362	1,249	1,176	1,106
Monthly payment as a percent of monthly income	**3.5%**	3.5%	3.8%	4.0%	4.4%
Average receivables (millions of dollars)	**3,501**	3,262	2,928	2,687	2,465
Operating expenses excluding interest expense as a percent of average consumer receivables	**11.30%**	12.06%	11.89%	12.04%	12.41%
Net chargeoffs as a percent of average receivables	**2.47%**	2.00%	2.02%	2.12%	2.16%

During the past three years interest expense has increased primarily because of higher interest rates on short-term debt and, in 1979, because of higher levels of short-term debt. The average interest rate on the short-term debt of the Finance Business in 1980 was 13.1%, compared with 11.4% in 1979 and 7.9% in 1978.

During the past three years growth of commercial receivables and initiation of the puchased vehicle contracts program with Chrysler Financial Corporation in August 1979 have added significantly to overall growth. These two activities now represent 22% of total finance receivables. Purchased vehicle contracts and commercial receivables were the significant factors in the increased earnings of the Finance Business in 1980.

Total Finance Receivables at Year End
(in billions of dollars)

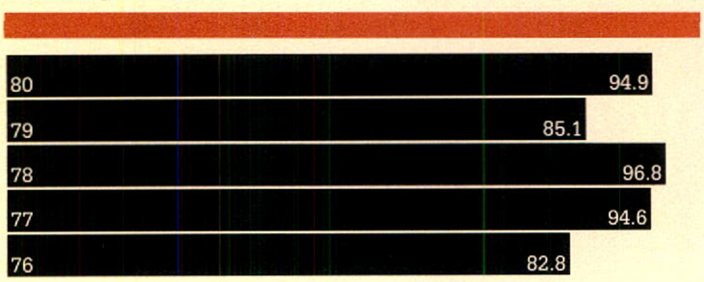


Liquidity/Capital Resources The Finance Business is highly liquid inasmuch as receivables are generally self-liquidating. This provides the ability to assume debt in amounts that result in higher leveraging than other types of businesses. It is expected that normal cash flows of the Finance Business in any given year will exceed the full amount of its currently outstanding short-term debt plus current maturities of long-term debt.

Funds provided by collections and operations as a percent of average short-term debt and current maturities of long-term debt were 137.5% in 1980 compared with 186.6% in 1979 and 260.3% in 1978. The decline in this percentage reflects the significant increase in short-term debt to accommodate the rapid expansion of the Finance Business during the fourth quarter of 1979. This expansion, which took place at an inopportune time to fund through the long-term debt market, includes vehicle contracts purchased on a floating rate basis, which protect the company's yield from fluctuating interest rates on short-term debt.

Generally, the greatest need for funds is to support growth of receivables, and Household maintains access to a number of sources of both long- and short-term debt. The Corporation's debt policy is described on page 36. Day-to-day financial flexibility is provided through the sale of commercial paper. Back-up is provided through lines of credit at various banks. At December 31, 1980, unused lines of credit totaled $1.2 billion. Capital expenditures totaled $10.0 million in 1980, $14.6 million in 1979 and $17.2 million in 1978. Because of the nature of the business, capital expenditures are expected to continue to be relatively insignificant.

Finance Earnings
(in millions of dollars, before *unrealized* foreign exchange effects)



A discussion of the impact of inflation on the Finance Business is provided on pages 63 through 65.

To devote more time to customer service, HFC branch representatives process loan applications by entering contract terms on this computer terminal. Almost instantly the contract is typed on the branch terminal for the customer's signature.

Consumer Finance Consumer receivables decreased 8%, or $297.0 million, to $3.3 billion as a result of slowing demand for consumer credit and a more restrictive lending policy. In light of expected high interest rates, HFC management elected in January, before the government-imposed credit control program was announced, to adopt a policy stressing contraction in the less profitable areas of the consumer finance business and growth in the more profitable activities. Overall the company planned to reduce outstanding receivables by $300 million to $400 million.

One of the most profitable areas where HFC is emphasizing continued growth is Equity Plus, HFC's homeowner loan program. With economic conditions over several years causing the value of homes to increase dramatically, homeowners are finding it advantageous to borrow against some of this increased value. Equity Plus has been successfully targeted to this market. Receivables, in individual amounts as large as $50,000, totaled $1.1 billion at the end of 1980, marking a 47% increase over $720.9 million at the end of 1979. This area of the business now represents 32% of consumer receivables, up from 20% at year-end 1979.

The company has maintained tight control of operating expenses, including branch office and administration staffing reductions. Operations have been consolidated without abandoning large service areas. HFC closed 136 offices net of office openings and one Division Headquarters in 1980. At the end of the year Household was operating 1,496 consumer finance offices in 48 states and Puerto Rico, 380 offices in 11 Canadian provinces, 107 offices in the United Kingdom and six offices in Japan. HFC was represented through 61 offices in Australia.

Just starting out, young singles and married couples between the ages of 25 and 35 do the greatest amount of borrowing. As the "Baby Boom" generation reaches this age group, HFC is there making loans and providing other financial services and counseling.

Net consumer receivables were $2.6 billion in the United States, $482.9 million in Canada and $174 million in overseas operations. By plan, receivables declined 10% in the United States and 11% in Canada while advancing 57% in overseas operations.

Net chargeoffs as a percent of average consumer receivables increased from 2.00% in 1979 to 2.47% in 1980, reflecting deteriorating economic conditions, including an increased incidence of consumer bankruptcies. Prolonged economic difficulties and a new federal bankruptcy law, which went into effect in October 1979, are the major causes of increased bankruptcy filings. Nevertheless, HFC has expended a great deal of effort to minimize loan losses. Credit granting standards have been raised and collection efforts intensified. As a result, overdue balance percentages were at the lowest year-end levels in 24 years. This also reflects a continuing improvement in the quality of the portfolio, including emphasis on the growth of real estate secured loans. Additionally, the company has reevaluated its reserve for credit losses and believes the reserve continues to be adequate.

This HFC Trust Limited office located in Rochester, England was one of the original branch offices when HFC Trust began operation in the United Kingdom in 1973. In 1980, HFC Trust opened its 100th branch office.

Although the average size of loans made has increased significantly in recent years, increasing customer income and lengthening loan maturities have caused the percentage of customers' monthly incomes required to repay their HFC accounts to decline from 4.4% four years ago to 3.5% today.

Over the years HFC has continued to expand its range of services. In addition to Equity Plus, the homeowner loan program, HFC offers revolving lending and direct mail merchandising. The HFC Income Tax Service was further expanded during the year and is now available in 1,422 branches in 43 states.

In 1979, HFC and Chrysler Financial Corporation reached an agreement whereby HFC would purchase vehicle installment receivables from Chrysler Financial in an amount which would yield maximum net proceeds of $500 million to Chrysler Financial. The agreement was amended in 1980 to provide that Household will continue to purchase receivables under the agreement until December 1983, covering the same period as the Chrysler Financial Loan Guarantee Act of 1979. The amendment also provides for a floating rate of charge tied to Household's cost of short-term borrowings to be applied to all contracts purchased under the agreement in the past and in the future. It is significant that this amended agreement provides Household with a substantial position in receivables that is not exposed to fluctuating short-term interest costs. These consumer receivables are secured by liens or security interests in vehicles sold by Chrysler dealers. The Corporation's interests are further protected by holdback arrangements. Household withholds 10% of the gross receivables as a deferred payment, which will be paid to Chrysler Financial as the receivables are liquidated, and at Household's option, any defaulted obligations may be charged against the deferred payment account.

Insurance Alexander Hamilton Life Insurance Company of America had approximately $11 billion of life insurance in force, including $6.4 billion of reinsurance assumed, and assets in excess of $497 million at the end of 1980.

Alexander Hamilton has reached a leading position in the credit insurance field through the sale of life and accident and health coverages principally to customers of HFC's consumer finance operations. In 1980, Alexander Hamilton began selling credit insurance to customers of banks, consumer finance companies, credit unions and retail merchants not affiliated with HFC. The volume of new credit insurance business was down in 1980 principally because of the planned reduction in HFC's consumer finance receivables. This reduction in volume in 1980 will have an adverse impact on earnings in 1981. This was considered when the decision to reduce receivables in 1980 was made.

New products introduced during the year included HOMELIFE 10/50 which provides credit life insurance to customers of HFC's homeowner loan program.

Additionally, "The First Step," a personal life insurance policy designed to give children up to 18 years of age a head start on their personal life insurance protection, was introduced in 1980. This product will eventually be available in over 1,000 HFC branch offices.

A complete line of ordinary life insurance products is offered to the general public through a system of 3,300 agents throughout the 49 states in which the company is licensed. Public acceptance of new life insurance products in 1980 was excellent, resulting in a sales increase of 40%, or $1 billion in face amount of insurance issued.

Located in Farmington Hills, Michigan, Alexander Hamilton's headquarters is currently being expanded. The addition, which will double the size of the present facilities, is indicative of the company's growth.

In a staff meeting Alexander Hamilton personnel discuss products for the future.

The first HFC Thrift opened in Salt Lake City in 1980; for 1981, another four Utah consumer finance branch offices will be converted to state-chartered, self-funding "thrifts."

At the Keystone office in Newport Beach, California, manager Patricia Caputo discusses the new NOW checking accounts.

Other Activities The 15 branches of Keystone Savings and Loan incurred a net loss of $1.6 million as a result of a decline in net interest margins. Offering passbook savings accounts and certificates of deposit, this self-funding operation makes only loans secured by real estate or savings on deposit. Other types of consumer lending will be introduced by Keystone in 1981. In 1980, Keystone opened three branches, bringing to 11 the total of new branches opened since HFC acquired Keystone in 1976.

Household's Industrial Banks located in Colorado continued their growth as assets rose from $13.4 million in 1979 to $26.7 million in 1980 and the number of banks increased from five to 12. These state-chartered operations combine advantages of both consumer finance and savings operations, buying sales finance contracts and making direct cash loans as well as first and second mortgage loans.

With experience in these self-funding activities, HFC has begun converting consumer finance branch offices in Utah to state-chartered "thrift" operations. The first HFC Thrift was opened in August in Salt Lake City. Additionally, the company has opened one deposit-taking HFC Trust in Canada.

Household's award-winning Money Management Institute celebrated its 50th anniversary in 1980. One of the oldest consumer education programs in North America, MMI annually distributes over a half-million pieces of literature upon request to educators, HFC customers, individual consumers, news media commentators, social workers, financial counselors, government officials and business leaders.

Commercial Finance

HFC's commercial finance activities continued to expand during 1980 with the purchase of equipment costing approximately $170.9 million and the placement of lease transactions with other lessors involving equipment which cost some $48.5 million. Equipment purchased by HFC Leasing Inc. for its own account during 1979 totaled $339.0 million.

HFC Leasing Inc.'s equity investment in major capital equipment acquired during the year was approximately $53.9 million, resulting in commercial net lease receivables of $197.1 million. This compares with $111.7 million and $139.5 million, respectively, in 1979. At year-end 1980, HFC Leasing was committed to fund in 1981 and thereafter transactions involving equipment expected to cost about $130.9 million.

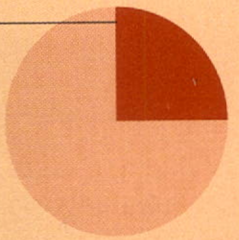
Leasing provides Household with the opportunity to enjoy near-term cash flow benefits of ownership associated with investment tax credits and income tax deferrals as well as potential long-term benefits from the ultimate sale of HFC Leasing's interest in the equipment. Since its formation in 1977, HFC Leasing has purchased and leased equipment which cost $676.7 million.

In 1980, Household purchased $49.4 million of privately placed, limited-term preferred and preference stocks, increasing total investments in these securities to $180.4 million. These investments have been made primarily in companies with "A" or "AA" debt ratings. Typically these stocks have terms which call for redemption within five to 10 years.

At the end of 1980, HFC Leasing was the equity owner of, among other things, some 12,000 railcars, 18 locomotives, 800 over-the-road trailers and chassis, coal mining equipment, two ocean-going vessels and 11 commercial aircraft.

Merchandising

25% of 1980 Earnings



Management Discussion and Analysis

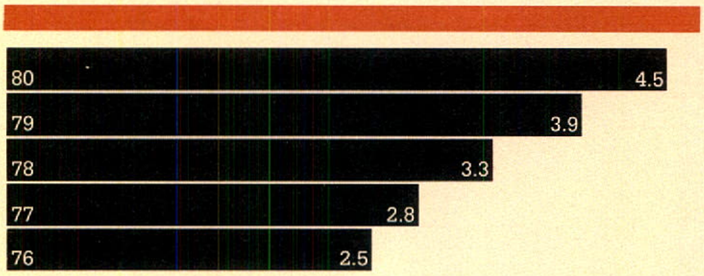
Results of Operations The 14% sales increase of the Merchandising Business in 1980 was at a slower rate than in 1979 and 1978 when increases were 18% and 16%, respectively. The supermarket segment showed the highest rate of increase in all three years and outpaced the rate of food price inflation. Supermarket sales are principally sales of necessities and were least subject to the effects of the depressed economy experienced in 1980. The rate of sales increase for retail general merchandise slowed somewhat in 1980 compared with that of the two previous years. Sales of the home furnishings segment increased slightly. Sales of the wholesale general merchandise segment were adversely affected by the reduced level of activity and high costs of inventory and capital funds. This segment experienced declines in operating income in 1980 and 1979.

Net income decreased 25% in 1980 from $57.1 million to $43.0 million. Net income in 1978 was $64.0 million. LIFO reduced 1980 and 1979 earnings by $22.6 million and $14.5 million, respectively. A discussion of the LIFO impact is provided on page 35. An economy that was generally weaker in 1980 than in 1979 and 1978 adversely affected results, primarily in wholesale operations and two home furnishings divisions.

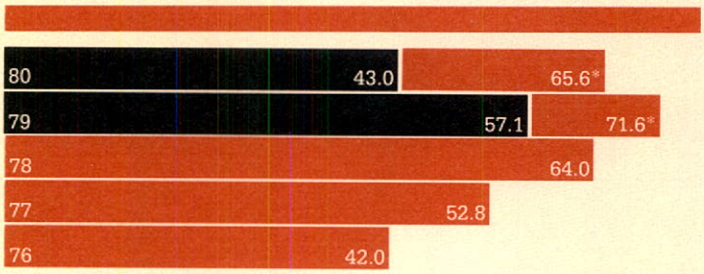
Merchandising Business
Selected Financial Data

(millions of dollars)	**1980**	1979	1978	1977	1976
Net sales by product class					
Retail					
General merchandise	**$1,779.7**	$1,582.4	$1,350.5	$1,148.5	$1,019.8
Supermarkets	**1,791.8**	1,473.4	1,193.0	975.1	839.5
Home furnishings	**148.0**	142.3	122.3	107.4	96.6
Total	**3,719.5**	3,198.1	2,665.8	2,231.0	1,955.9
Wholesale					
General merchandise	**742.9**	720.7	646.8	615.9	565.5
Total net sales	**4,462.4**	3,918.8	3,312.6	2,846.9	2,521.4
Net income	**43.0**	57.1	64.0	52.8	42.0
Total assets	**1,283.2**	1,214.6	1,062.8	930.3	841.0
Selling Square Feet (millions)					
Retail					
General merchandise	**22.7**	21.4	19.7	18.8	18.6
Supermarkets	**3.2**	3.1	2.8	2.6	2.4
Home furnishings	**1.8**	1.7	1.7	1.7	1.7
Wholesale					
General merchandise	**19.7**	20.1	19.9	19.7	19.2
Cost of sales, buying and occupancy as a percent of sales	**80.5%**	80.0%	79.0%	79.1%	78.9%
Long-term obligations (millions of dollars)					
Debt	**123.3**	131.1	134.6	105.5	87.4
Capital leases	**129.1**	109.8	77.2	69.5	65.7

Merchandising Net Sales and Revenues
(in billions of dollars)



Merchandising Earnings
(in millions of dollars)



■ Based on the LIFO method of valuing inventories
■ Based on the FIFO method of valuing inventories
* Presented as supplemental information

Cost of sales, buying and occupancy increased from 80.0% of sales in 1979 to 80.5% in 1980. The increased impact of LIFO was largely responsible for the increased cost of sales percentage, particularly in retail general merchandise and home furnishings where competitive pressures reduced the opportunities for price increases. In the supermarket business, however, gross margin rates improved slightly in 1980 as more rapid movement of merchandise permitted a better matching of selling price and cost. The change to the LIFO method of accounting for valuing inventories was the principal cause of the increase from 79.0% in 1978 to 80.0% in 1979 of the ratio of cost of sales, buying and occupancy to sales. Higher energy costs resulted in increased occupancy expense in both years despite extensive energy conservation efforts.

Selling and administrative expense increased to 16.9% of sales in 1980 from the 16.5% ratio in 1979 and 1978. This was a result of sales increases that did not keep pace with rising costs. Sales growth over the past three years has increased the need for working capital, mainly inventories. This need has been met by the reinvestment of earnings and by increased borrowing. More than half of the increase in interest expense for 1980 and 1979 resulted from increased borrowing with the balance caused by higher interest rates.

Liquidity/Capital Resources The LIFO method for valuing inventories, as compared with the FIFO method, results in lower inventory values and thereby reduces reported working capital and the ratio of current assets to current liabilities. Accordingly, adoption of LIFO in 1979 has caused an apparent deterioration of liquidity, but in fact liquidity has improved. The primary source of liquidity is supplied by cash flow from day-to-day business operations. External short-term sources of liquidity include the regular sale of commercial paper, bank lines of credit and sales of accounts receivable to HFC. At year end, no bank lines were in use, and substantial capacity for sales of additional commercial paper existed. In the long run, liquidity will be affected by the generation of cash flow and the sale of additional long-term debt. The company expects future liquidity needs to be satisfied through these sources.

Merchandising has routine commitments for capital expenditures associated with opening new stores and remodeling existing stores. Planned expenditures in 1981 also include construction of a grocery warehouse for Vons. The real-estate portion of these commitments is generally financed through long-term leases or issuance of long-term mortgage notes. Expenditures for fixtures and related capital commitments are made through internally generated cash flow in addition to the periodic issuance of unsecured long-term debt. No difficulty is anticipated in meeting future budgeted funding requirements. Seasonal inventory levels are funded through the sale of commercial paper. In the past three years, the mix of capital resources shifted toward heavier reliance on debt and lease financing.

A discussion of inflation as it relates to the Merchandising Business is provided on pages 63 through 65.

Supermarkets Sales for Von's Grocery Co. and the refrigeration service and ice manufacturing division increased 22% to $1.8 billion. This follows two excellent sales increases of 24% and 22% achieved in 1979 and 1978, respectively.

With inflation and the trend toward dual-income families, consumers increasingly shopped for value and convenience. Vons responded by offering sharper-priced, image-building promotions to attract and increase market share. These additional promotional efforts resulted in a significant operating income gain.

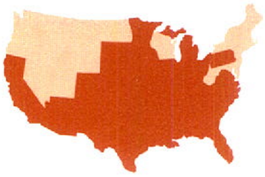
During the year Vons maintained the leading market share in Los Angeles and Orange counties and attained the leading share in the San Diego market.

Five new Vons stores were opened during the year, 12 stores were remodeled and three stores were closed. Renovation and expansion of existing stores provides the company with a cost-efficient way of improving operations and expanding an already established customer base without heavy capital requirements and other start-up costs associated with opening new facilities in new markets. For 1981, the company plans to open eight new stores and remodel 19.

163 Vons supermarkets in 2 states

Manager William Kendig and checkers welcomed customers to the grand opening celebration of this new Vons in Irvine, California. During 1980, four other new Vons stores were opened.

915 T.G. & Y. stores in 28 states



Future T.G.&Y. stores, like this new Family Center in Yukon, Oklahoma, will average 50,000 square feet. Close review of merchandising assortments ensures that each T.G.&Y. store is sensitive to the needs and wants of the local market.

General Merchandise Sales for T.G.&Y. stores and the company-owned White home and auto stores increased 12% in 1980. Retail general merchandise contributed 40% of Merchandising Business volume and 46% of operating income.

Consumers reacted to economic conditions by insisting on the best value for their shrinking dollars, and T.G.&Y. was well-positioned to meet this consumer demand.

During the year 47 new stores were opened and 14 remodeled. T.G.&Y.'s program of converting smaller stores into larger, full-line family centers through remodeling and expansion continues to be a cost-efficient method to achieve growth. Sixty-seven smaller, less profitable stores were closed. For 1981, T.G.&Y. has scheduled the opening of another 49 stores averaging 50,000 square feet, the remodeling of seven stores and the closing of an estimated 25 less productive stores.

With a tighter consumer dollar and the trend toward one-stop shopping, T.G.&Y. family centers offer a wide selection of everyday merchandise at value prices.

(Below) This Whites automotive service center in Charlotte, North Carolina features 18 bays and sophisticated diagnostic equipment for car repair. In servicing cars, Whites uses its own brand of automotive supplies, including fanbelts, batteries and air filters.

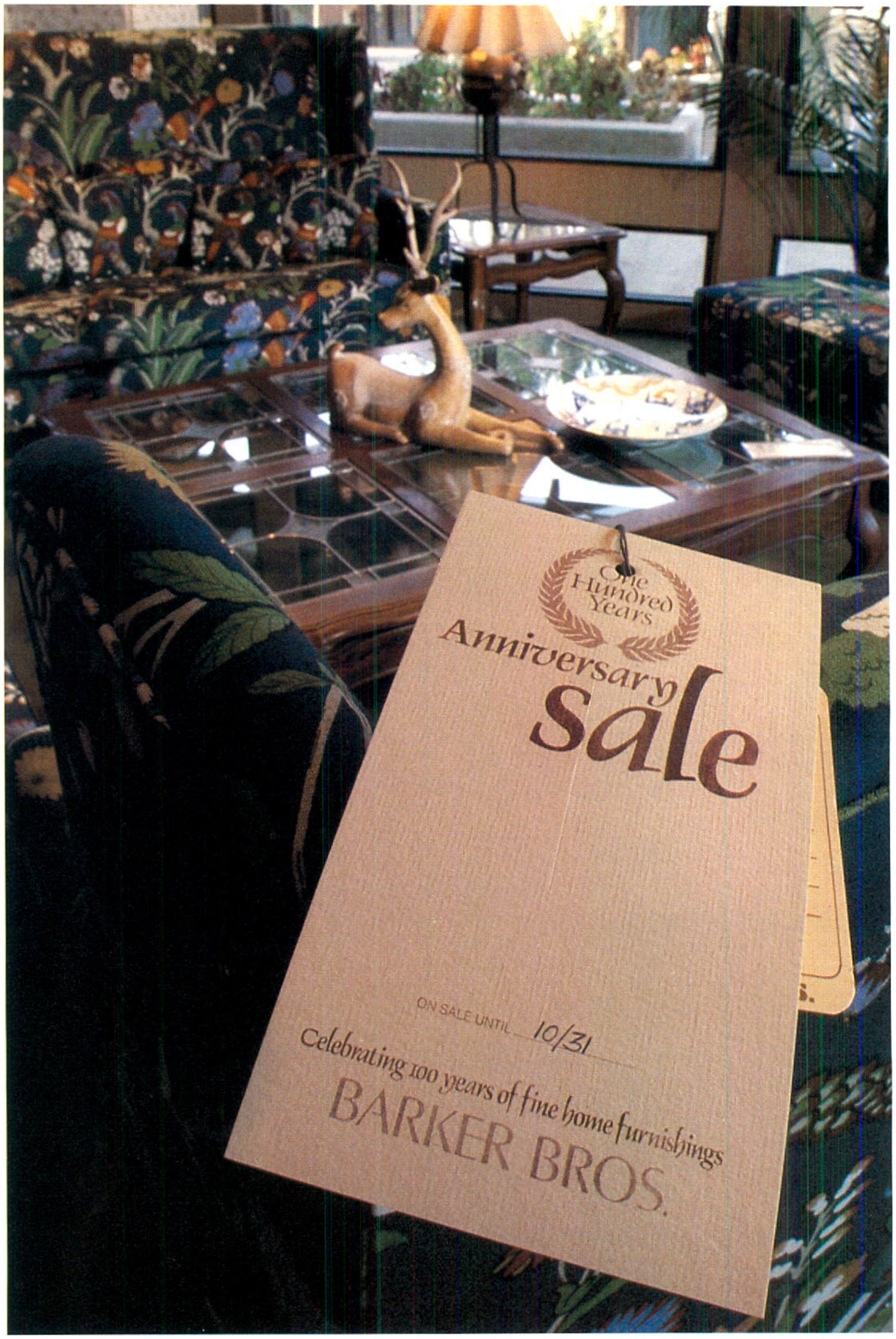
The company-owned White Stores incurred a small decline in operating income stemming from the weakened retail economy. Seventeen stores were remodeled and six less profitable stores closed. For 1981, Whites will continue to upgrade stores and emphasize automotive services.

Franchised White Stores, which purchase substantial inventories from the company, were also adversely affected by the slowing economy. Potential franchisees for new stores experienced difficulty securing capital, and existing franchise dealers managed inventories closely to minimize carrying costs.

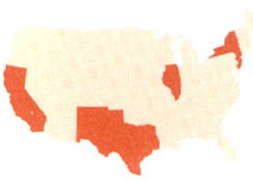
88 White Stores (company-owned) in 7 states, and 423 White Stores (franchised) in 16 states

Home Furnishings

During 1980, the business continued to experience the softening of big ticket sales that has been felt throughout the industry since mid-1979. However, the Chicago-based Colby stores and the American Furniture group operating in El Paso, Texas generated sales and income gains. New Jersey-based Huffman-Koos and Los Angeles-based Barker stores experienced depressed sales levels. Total sales improved 4%, while operating income declined sharply.



41 home furnishings stores in 6 states



Opened in June 1980, Barker's in Laguna Hills, California is the largest Barker's branch with 50,000 square feet of selling space. This tri-level store features an open atmosphere and furniture displayed in a free-flowing fashion with continuity from traditional to contemporary styles.

1,801 Ben Franklin stores in 49 states

Ben Franklin

Although sales for Ben Franklin improved slightly for the year, 1980 operating income declined significantly. Wholesale operations were particularly affected by economic conditions. Potential franchisees experienced difficulty obtaining financing, and existing store owners exercised tight control over purchases of inventories.

However, Ben Franklin's new program of upgrading and expanding the home accent area by featuring products for home decoration and crafts has been successful. A new "convenience" store, or small market, general merchandise store of the future, will be established in 1981.

During the year 65 stores were opened, 140 remodeled and 149 smaller stores closed.

At the Lanier Shopping Center in Cummings, Georgia, John Parker is manager of this Ben Franklin store which features a do-it-yourself framing department and a special section for wicker accessories. Other innovations include daytime and evening craft classes.

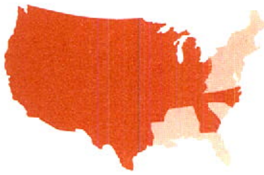
In the last decade over 3 million Americans have migrated to the temperate Sunbelt. In addition to this store in Cedartown, Georgia, Coast-to-Coast plans to further penetrate this rapidly growing region of the United States to help meet consumer needs for hard goods.

Coast-to-Coast

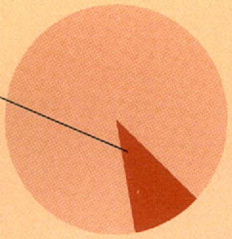
Coast-to-Coast achieved a small sales gain during 1980, while operating income declined slightly below 1979's record level. The company continued to emphasize hard goods, housewares and do-it-yourself materials which have particular appeal in an inflationary environment.

In 1979, Coast established its first stores in Georgia, signaling the division's plan to penetrate the Southeastern market of the rapidly growing Sunbelt. In 1980, stores were opened for the first time in Arizona, New Mexico and Utah. These stores have received wide consumer acceptance as have the four new specialty sporting goods Total Sports stores in Minnesota. Further expansion of Coast-to-Coast stores is planned in the Southeast and Southwest with new stores scheduled for opening in the Carolinas and Texas. During the year 34 stores were opened, 308 remodeled and 34 closed.

1,203 Coast-to-Coast stores in 31 states



Manufacturing



Management Discussion and Analysis

Results of Operations Net sales and revenues were $265.1 million in 1980, increasing 8% from $245.6 million in 1979. Revenues in 1978 totaled $232.2 million. Earnings before *unrealized* foreign exchange gains and losses were $17.5 million, compared with $19.6 million in 1979 and $21.2 million in 1978, while net income after *unrealized* foreign exchange effects was $17.0 million, compared with $19.7 million in 1979 and $21.2 million in 1978.

Reported earnings for 1980 and 1979 were affected by adoption of the LIFO method for valuing domestic inventories. LIFO reduced 1980 and 1979 earnings by $2.8 million and $2.4 million, respectively. A discussion of the LIFO impact is provided on page 35. There was no impact in 1978, the year prior to the adoption of LIFO. In 1979, earnings would have exceeded those of 1978 if the change to LIFO had not been made.

Over the last three years 60% of Manufacturing's increased sales have come from the outdoor living products segment, 39% from commercial refrigeration products and 1% from industrial products.

The last three-year period has generally been one of escalating material costs and increased difficulty in offsetting cost increases with price increases because of competitive pressures. Economic conditions generally worsened in 1980 with a negative impact on demand resulting in reduced operating income particularly in the domestic outdoor living segment. Production cutbacks associated with lower unit sales and inventory reduction programs increased underabsorption of overhead costs and further reduced earnings. These factors were partially offset by higher earnings of foreign operations in 1980.

Manufacturing Business
Selected Financial Data

(millions of dollars)	**1980**	1979	1978	1977	1976
Net sales by product class					
Outdoor living	**$133.9**	$120.6	$111.1	$100.7	$ 95.0
Commercial refrigeration	**86.1**	76.4	74.3	64.3	62.1
Industrial	**45.1**	48.6	46.8	44.3	49.0
Total net sales	**265.1**	245.6	232.2	209.3	206.1
Earnings before *unrealized* foreign exchange gains and losses	**17.5**	19.6	21.2	18.9	19.3
Net income	**17.0**	19.7	21.2	19.2	18.3
Total assets	**182.4**	170.5	147.7	134.6	128.2
Long-term debt	**9.5**	0	0	0	0
Working capital	**100.0**	93.3	82.3	70.2	66.8
Working capital ratio	**4.0/1**	3.5/1	4.1/1	3.6/1	3.6/1

Commercial refrigeration products experienced modest sales increases in 1980 from 1979, a year of both production and supplier problems. During 1980, a new plant producing commercial ice machines was opened in Fairfax, South Carolina. In 1978, demand for commercial refrigeration products was very good. The industrial products segment has experienced modestly increasing sales throughout the three-year period.

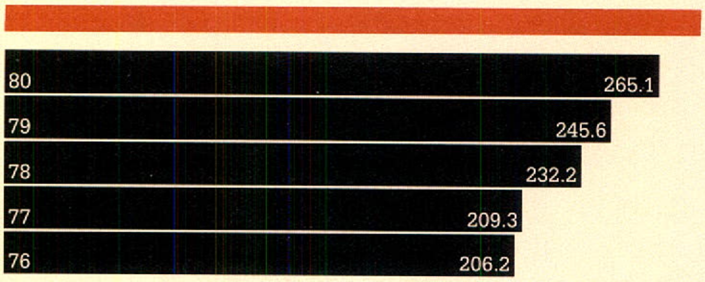
During the past three years interest expense increased as a result of increased borrowing and higher interest rates. The effective tax rate decreased in 1979 primarily as a result of a reduction in the federal statutory rate and the reversal of previously accrued taxes because of a change in United Kingdom tax legislation.

Liquidity/Capital Resources The ability of the company to meet its short-term obligations has remained substantially unchanged during the past three years. Working capital totaled $100.0 million in 1980, $93.3 million in 1979 and $82.3 million in 1978. Working capital ratios during these three years were 4.0 to 1, 3.5 to 1 and 4.1 to 1, respectively.

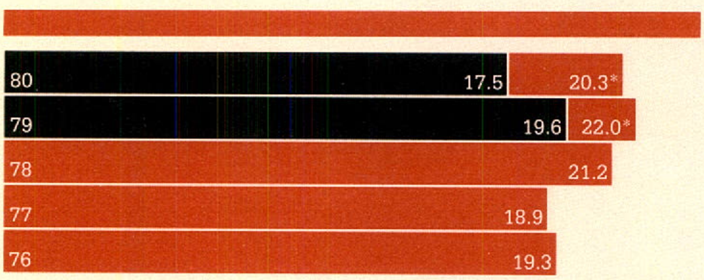
Capital expenditures totaled $14.4 million in 1980, $8.4 million in 1979 and $6.9 million in 1978. Increased capital expenditures in 1980 were principally the result of the construction of a plant in South Carolina and the purchase of a plant in Indiana to expand existing operations. These plants were financed by industrial revenue bonds totaling $9.5 million. Generally, short-term debt is used for seasonal financing of inventories and receivables. Financial flexibility is provided by lines of credit maintained at various banks. Lines of credit at December 31, 1980 totaled $16.0 million. At December 31, 1980, there were no commitments for capital expenditures that will materially impact future liquidity.

A discussion of the impact of inflation on the Manufacturing Business is provided on pages 63 through 65.

Manufacturing Net Sales and Revenues
(in millions of dollars)



Manufacturing Earnings
(in millions of dollars, before *unrealized* foreign exchange effects)



■ Based on the LIFO method of valuing inventories
■ Based on the FIFO method of valuing inventories
* Presented as supplemental information

Since the early 1900s, Thermos has designed and manufactured products that allow consumers to keep their beverages and food hot and cold. For today's consumer enjoying leisure activities, new Thermos® products, including this chest and Jet Jug™, have been designed for improved personal convenience.

Outdoor Living Products Leisure time product sales increased 11% to $133.9 million, while operating income decreased 10% to $13.0 million.

The Thermos division achieved significant success with new product developments and introductions, such as the Flip'N Sip™ stopper on the Roughneck® bottle. This improvement in school lunch kits confirmed Thermos' leadership position. The overall economic situation, however, severely impacted Outdoor Living Products' domestic results which were partially offset by the strong performance of foreign operations.

While the market for vacuumware bottles was depressed, Thermos identified new product opportunities. With the introduction of a highly competitive unbreakable bottle with a steel case and stainless liner, Thermos broadened its brand name line. In glass vacuumware, the new Go Stopper™ and the newly decorated Perfect Pitcher™ both were widely accepted.

In conjunction with the Thermos strategy of offering a broad line of outdoor living products to meet specific consumer needs, a new personal cooler, L'il Sunpacker®, was introduced. The Jet Jug™, a high-quality, high-performance cold beverage dispenser, achieved wide consumer acceptance.

In Metallized Products, the Warm & Cozy™ mattress pad was introduced in the fourth quarter. This product has been successfully targeted to meet the needs of the energy-conscious consumer.

Structo® gas barbecue grill unit sales in 1980 increased at a rate faster than that of the industry. Consequently, Structo achieved market share gains.

United Kingdom subsidiary Thermos Limited experienced continued sales and profit growth despite the strengthening of the British pound against most currencies, which has a negative impact on export sales. For the first time Thermos Limited produced insulated bottles for school children and cooler jugs. In both the domestic and export markets, Thermos Limited again increased its market share.

Canadian Thermos Products Limited produced a Canadian version of the popular U.S. Sun-Packer® insulated ice chest; this was a successful addition to the outdoor living products line. For 1981, a new, smaller chest, the Daytripper®, is expected to achieve equally good results.

As friends and families all across the nation have gathered throughout the years for conversation and good food, the cookout has become an American institution. Structo® gas barbecue grills, like this new portable, double-grill model with an automatic starter, have achieved popularity for their quality, safety and convenience.

Commercial Refrigeration Commercial Refrigeration product sales increased 13% to \$86.1 million, while operating income declined 8% to \$15.8 million.

The new line of Scotsman® ice cube machines in production at the new manufacturing plant in South Carolina has received an extremely positive response. Scotsman also introduced "ice nuggets" with handling and meltage characteristics of cube ice for use in energy-efficient flaked-ice equipment.

For all commercial products, Scotsman announced the strongest labor warranty in the ice machine industry; this represents Scotsman's continuing commitment to quality. A new research center was also established to ensure continued industry leadership.

Energy efficiency and life-cycle costing are key considerations for Halsey Taylor. Independent tests proved Halsey Taylor®'s wall-hung electric water coolers to be 28-92% more energy efficient than comparable competitive models. Further product design and manufacturing improvements are planned for 1981.

Italian subsidiary Frimont S.p.A. had another record sales and profit year with Scotsman® ice equipment. A redesigned product line for 1981 was introduced in Rome at the December Distributor Conference attended by 48 distributors from 35 countries in Africa, Europe and the Middle East.

Halsey Taylor® drinking fountains have been redesigned over the years not only for improved energy efficiency but for compatibility with contemporary design and architecture to assure that Halsey Taylor products will continue to meet the demands of the building and construction industry.

At the new Scotsman manufacturing plant in Fairfax, South Carolina, employees put the final panel in place on a Scotsman® II ice machine. This new Scotsman® line represents the most energy-efficient equipment on the market.

Industrial Products

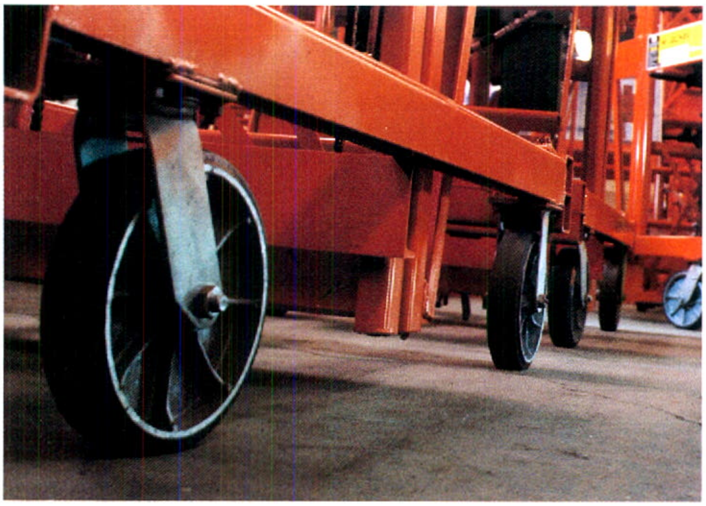
Industrial product sales decreased 7% to \$45.1 million, and operating income decreased 9% to \$6.4 million.

Albion Industries experienced excellent growth with large industrial caster products used in rebuilding automotive production lines and in expanded aircraft production tooling.

Almco achieved major gains in the sale of larger, custom-designed metal finishing systems. Foundry earnings increased in 1980 primarily as a result of the installation of automatic molding equipment which reduced production costs and scrap. For the machine tool industry Almco has implemented a marketing plan for a new series of Almco Cyclonic Filtration® equipment.

The King-Seeley division completed a new research and development facility and purchased a second manufacturing plant which will be in operation in 1981; the plant has the latest equipment for supplying innovative electronic appliance control devices to the appliance industry.

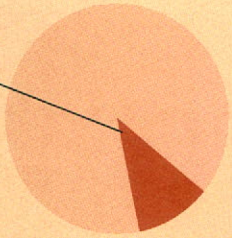
Metallized Products has been quick to respond to new opportunities for coated and laminated, aluminized products. Successful integration of metallization and electron-beam curing capabilities, coupled with an aggressive research and development plan in 1981, will place the division in a unique position in new energy-related markets.



For 1981 Albion plans to introduce a new series of casters which will be among the largest offered as standard products by any caster company.

For working singles and dual-income families, the trend in food preparation is toward convenient and energy-efficient cooking appliances. King-Seeley has designed and engineered a complete line of electronic control systems, including the advanced Alpha Numeric controls used for these modern appliances. At the Kendallville, Indiana plant engineer Ronald Blotkan tests the controls of one of these new systems.

Transportation



Rental and Leasing Results of Operations In Rental and Leasing, revenues of National Car Rental System, Inc. were $366.6 million, an 18% increase over 1979 revenues of $310.8 million. Revenues in 1978 totaled $261.8 million. Net income increased 1% in 1980 to $17.9 million from $17.6 million. Net income was $16.1 million in 1978.

Successful Rental and Leasing results are generally dependent upon dedicated customer service, well-placed locations, efficient disposal of vehicles, optimal fleet utilization and low financing costs. In 1980, positive trends continued as rental transactions increased despite economic conditions that were generally worse than those of the two prior years. Each of the last three years saw National accomplish a new record in car rental reservation activity and fleet size. The market for used cars firmed significantly during the second half of 1980 after being generally depressed throughout 1979 and the first half of 1980. In 1978, the market for used vehicles was very strong. Throughout the first half of 1980 and again during the fourth quarter, National's results were adversely affected by increased interest rates compared with those of 1979 and 1978.

Rental and Leasing Liquidity/Capital Expenditures Liquidity in Rental and Leasing is very high. This is the result of the nature of the company's revenue-earning assets, principally vehicles, which management believes to be readily marketable at values which, in the aggregate, have always exceeded the amount of related debt.

Transportation Business
Selected Financial Data

(millions of dollars)	**1980**	1979	1978	1977	1976
Rental and Leasing					
Revenues	**$366.6**	$310.8	$261.8	$201.1	$173.8
Net income	**17.9**	17.6	16.1	14.0	9.0*
Total assets	**659.4**	477.9	417.7	337.4	251.7
Vehicle obligations and other debt	**434.7**	287.0	254.4	218.5	164.2
Air Travel					
Revenues	**126.5**				
Net income	**1.5**				
Total assets	**93.3**				
Long-term debt	**40.3**				

*Includes $0.6 million from discontinued operations.

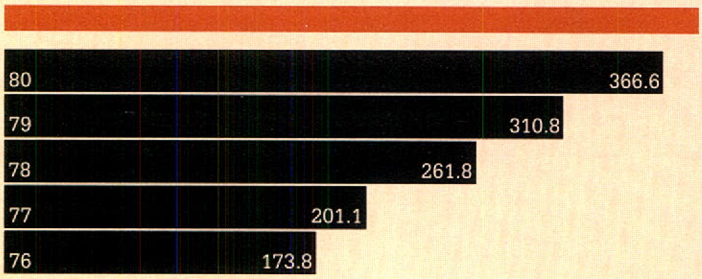
Vehicle financing is accomplished through the issuance of commercial paper for the daily rental fleet and the placement of notes with banks and other lending institutions for the leasing fleets. Since 1978, all borrowings have been on an unsecured basis. Because of the credit standing of the company, as well as the nature of the assets being financed, the company has experienced no difficulty in the placement of these financing arrangements, even under adverse economic conditions.

Capital expenditures are made principally for service facilities to support car and truck rental operations. These expenditures are generally not significant in amount. National has no commitments for expenditures that will materially impact future liquidity.

In January 1981, National entered an agreement to purchase substantially all of Consolidated Leasing Corporation's car rental operation assets. Consolidated Leasing's rental division had been operating as the National licensee throughout Southern California.

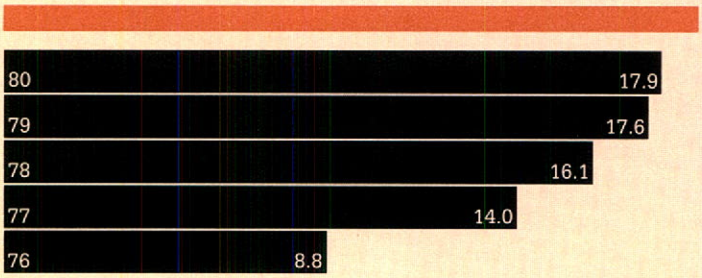
A discussion of the impact of inflation on the Rental and Leasing Business is provided on pages 63 through 65.

Rental and Leasing Revenues
(in millions of dollars)



Air Travel Results of Operations In Air Travel, Wien Air Alaska, Inc. became a wholly-owned subsidiary of Household in December 1980. Wien's 1980 revenues increased 50%, and Household's equity in Wien's 1980 earnings was $1.5 million. Although Wien experienced the effects of a weakened economy in 1980 with a decrease in passenger traffic, revenues increased as a result of route expansion, an increase in customer fares and an increase in the mail, freight and charter business. Deregulation of the airline industry brought competition to several routes served by Wien. Operating expenses were up in 1980 as a result of new routes to Seattle and fuel prices which continue to escalate, but at a slower pace than in 1979.

Rental and Leasing Earnings
(in millions of dollars)



Air Travel Liquidity/Capital Expenditures Cash flow and liquidity are primarily provided by operations, including the depreciation of flight equipment. Aircraft are currently financed through bank financing, while routine replacement equipment is purchased with funds generated from operations. In 1979, Wien purchased three Boeing 737 aircraft to service new routes and to replace propeller aircraft. Capital expenditures totaled $5.8 million in 1980.

Stressing preventive maintenance for customer safety, comfort and convenience, National is highly rated by customers for the condition of its cars.

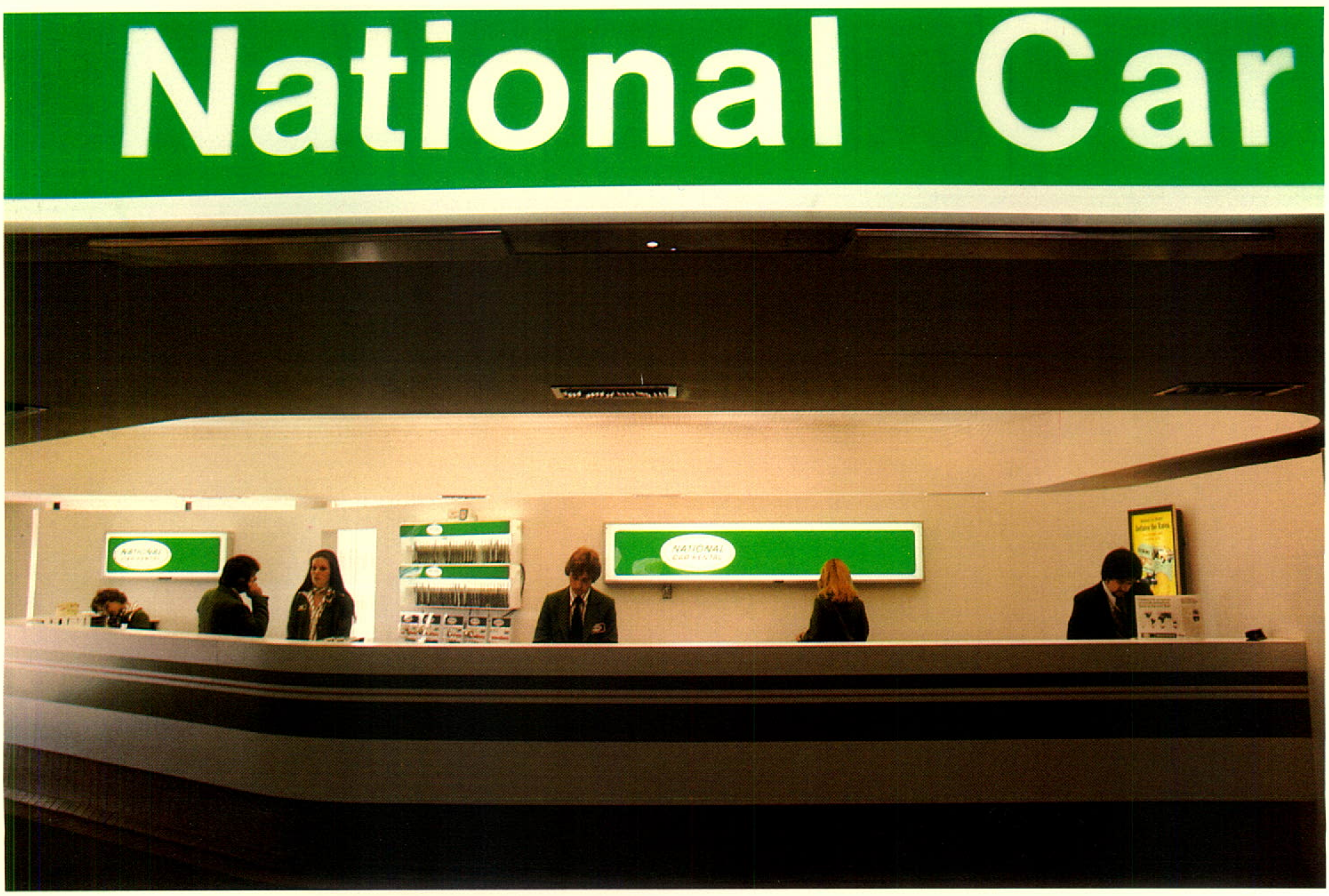
In addition to this location at the Dallas-Fort Worth airport, National is represented at more than 2,000 locations in 91 countries and territories around the world under its own name and through Tilden Rent-a-car in Canada; Europcar in Europe, Africa and the Middle East; and through its own licensees in Australia, Latin America, the Caribbean and the Pacific.

Car Rental During the year National continued its excellent revenue growth despite economic conditions. Car rental transactions remained strong for the year, exceeding 1979 levels; however, net income was negatively impacted by a soft used car market during the first half of the year and by higher interest costs.

To attract and maintain customers through improved accuracy and speed at the rental counter, National introduced the National Expressway in 23 cities. The Expressway is a fully integrated computer network with terminals built into rental counters to provide automated check-in and check-out capabilities. By the end of 1981, the Expressway will be operational in most corporate and many licensee locations throughout the U.S.

For further customer service National continued to stress car condition, preventive maintenance and the Maintenance Check-List, a tag which features 13 items important to the customer's safety, comfort and convenience. These tags also allow National to monitor its performance as they solicit customer comments. Consumer input is important to National, and many current programs reflect the needs and suggestions of customers.

Fleet composition is determined by consumer preferences in renting cars as well as by consumer preferences in buying used cars. Consequently, National has been increasing the number of smaller, more fuel-efficient cars in its fleet; at December 31, 1980, cars with V6 engines or smaller comprised approximately 95% of the total fleet.



The National Expressway currently is capable of handling check-in transactions, and testing is being completed on programs that will provide a full range of rental counter support functions. The capture and availability of rental agreement data will also be used to develop functions in fleet management, management information reports and administrative and accounting support.

Along with continued emphasis on its primary market, business renters, National strengthened its off-airport and leisure business with aggressive local marketing activities and competitive sales programs. In 1980, National was named the official car rental company of Disneyland and Walt Disney World, opening the doors to new business in the leisure market through the 6 million members of Disney's Magic Kingdom Club.

The company also strengthened its worldwide system with the expansion of its network of representatives, including new licensee locations operating under the newly-created corporation of Natcar Pty, Ltd.in 16 cities in Australia.

In January 1981, National entered an agreement to purchase substantially all of the assets of the car rental operations of Consolidated Leasing Corporation which had been operating as the National licensee throughout Southern California. Car rental locations being acquired include Los Angeles International Airport, San Diego Airport and other locations in Los Angeles and Orange counties, Ontario and Palm Springs.

Lend Lease With the economic conditions of 1980, more businesses elected to take advantage of the cost and service benefits of leasing provided by Lend Lease's car leasing and truck rental and leasing divisions.

The car leasing division increased its fleet size 22% to 28,000 vehicles. The division continued to emphasize its high-quality service, including computerized fleet management programs which offer clients new and improved reporting, including better methods of analyzing fleet costs.

In Lend Lease's truck rental and leasing activities, the emphasis continued to be premium equipment, providing Lend Lease with a marketing edge as customers realized greater fuel savings and operating performance from their vehicles. The premium equipment also brought Lend Lease a greater vehicle resale value.

The September acquisition of certain truck leasing assets from Flexi-Van Corporation, offset in part by a reduction in the daily rental fleet, brought the total number of vehicles in the Lend Lease truck fleet to 4,200. The addition of 16 new locations in key markets helped expand the service network and improved opportunities to attract larger, national accounts.

Mud Cat National continued to promote its Mud Cat portable dredging system, finding new applications for the system in cleaning lakes, streams and industrial settling ponds and in reclaiming minerals and coal for future use. In 1980, the division began marketing two additional machines, an aquatic weed harvester and a suction cutterhead dredge.

Renowned for their premium equipment, Lend Lease trucks provide customers with outstanding operating performance and fuel savings.

Wien Air Alaska Air Travel revenues for the year totaled $126.5 million, an increase of 50%. Household's equity in Wien's earnings was $1.5 million.

In addition to transporting over 750,000 passengers annually and serving the commercial freight and mail traffic of Alaska and its "bush" country, passenger service out of Seattle has been successful. In December Wien expanded its Seattle flight to include Portland. Expansion of Wien's route system within Alaska and to Seattle and Portland contributed to increased revenues.

Wien Air Alaska as well as the rest of the airline industry experienced passenger traffic below expected levels. Much of this was caused by the effects of a weakened economy, which were felt most strongly in the fourth quarter. This was largely offset by an increase in mail and freight business and expansion of the charter business. Additionally, Wien continued to exercise expense control throughout the year. Although the airline's fleet consists of fuel-efficient aircraft, jet fuel prices continue to rise and be of concern.

Wien owns nine Boeing 737 jet aircraft, leases one and, during the busy summer months, leases or rents as many as four additional 737's.

Noted for overall safety, the Boeing 737 jet aircraft provides versatility in combining cargo and passenger operations for efficiency in serving Wien's route system.

While on a hunting trip, an amateur photographer captured on film this Wien jet taking off over the River of Ice in the Mendenhall Glacier in Alaska.

Management Discussion and Analysis

Earnings

Earnings for 1980, before the inclusion of *unrealized* foreign exchange gains and losses, were down 6% to $146.5 million, or $2.86 per common share on a fully diluted basis. This compares with $155.8 million, or $3.04 per share, in 1979 and $175.6 million, or $3.43 per share, in 1978. After *unrealized* foreign exchange gains and losses, net income decreased 13% to $141.0 million, or $2.75 per fully diluted share of common stock. This compares with $161.2 million, or $3.15 per share, in 1979 and $153.2 million, or $2.99 per share, in 1978.

Results for 1980 and 1979 are based on the last-in, first-out (LIFO) method for valuing domestic inventories. LIFO reduced 1980 and 1979 reported earnings by $25.4 million and $16.9 million, respectively.

Corporate expenses, which are of an overall parent-company nature, increased $4.7 million in 1980, principally as a result of increased administrative functions of the Corporation and increased carrying costs associated with the acquisition of Wien Air Alaska.

Change in Inventory Valuation Method

The Corporation changed its accounting policy for valuing domestic inventories to the LIFO method in 1979. The purpose of the change in method is to more closely match current inventory costs with current revenues; this results in reporting cost of goods sold which more closely matches recent prices. Many other corporations have made this change, and Household believes adoption of LIFO to be in the best interest of its shareholders as the use of LIFO provides a more realistic presentation of the effects of inflation. LIFO is also used for income tax purposes, providing significant cash flow benefits through the reduction of tax payments and interest savings generated through a corresponding reduction in borrowings.

Household's inventories are in its Merchandising and Manufacturing businesses; the change in method reduced 1980 and 1979 net income in Merchandising by $22.6 million and $14.5 million, respectively, and in Manufacturing by $2.8 million and $2.4 million. This reduction in income is computed by substituting FIFO for LIFO inventory values in cost of sales calculations and adjusting for the related tax benefits. Income from reduced borrowing costs associated with the tax savings obtained by using LIFO has been included in both LIFO and FIFO earnings. Both businesses would have reported gains in net income for 1979 if the change to LIFO had not been made.

Corporate

Fully Diluted Earnings per Common Share
(in dollars, before *unrealized* foreign exchange effects)

■ Based on the LIFO method of valuing inventories
■ Based on the FIFO method of valuing inventories
* Presented as supplemental information

Corporate
Selected Financial Data

(millions of dollars)	**1980**	1979	1978	1977	1976
Earnings before *unrealized* foreign exchange gains and losses	**$ 146.5**	$ 155.8	$ 175.6	$ 160.3	$ 134.2
Earnings per common share before *unrealized* foreign exchange gains and losses (dollars)					
Primary basis	**3.00**	3.21	3.67	3.38	2.87
Fully diluted basis	**2.86**	3.04	3.43	3.13	2.62
Net income	**141.0**	161.2	153.2	138.5	133.6
Net income per common share (dollars)					
Primary basis	**2.88**	3.33	3.18	2.90	2.86
Fully diluted basis	**2.75**	3.15	2.99	2.71	2.61
Dividends declared per common share (dollars)	**1.575**	1.500	1.375	1.250	1.150
Long-term debt	**2,561.0**	2,341.1	2,261.7	1,981.9	1,805.6

Financings

The Corporation reduces the impact of short-term interest rate fluctuations by its policy of attempting to maintain approximately 75% of its Finance Business debt in the form of long-term borrowings. At year-end 1978, $2.3 billion, or 76% of the $3 billion borrowings of Household Finance and its consolidated subsidiaries, was in the form of long-term borrowings.

In 1979, short-term debt increased significantly to accommodate the rapid expansion of the Finance Business. Much of this expansion took place during the fourth quarter of 1979, an inopportune time to fund through the long-term debt market. A significant part of this expansion consisted of purchased vehicle contracts on a floating rate basis, eliminating the interest rate exposure considerations normally associated with short-term debt. As a result, long-term debt borrowings fell to 59% of total borrowings. At year-end 1979, borrowings of the Corporation and its consolidated finance subsidiaries totaled $4 billion, of which $2.4 billion represented long-term borrowings.

During 1980, short-term debt was reduced through planned contraction of consumer receivables and a $200 million seven-year 12% public debt offering in April. Additionally, in April 1980, purchased vehicle contracts were fully converted to a floating rate basis, further reducing the Corporation's exposure to fluctuating short-term rates. Short-term debt used to finance purchased vehicle contracts is an exception to the Corporation's policy of maintaining approximately 75% of total debt as long-term, fixed-rate debt because the yield on these contracts is tied to the Corporation's cost of short-term debt. At year-end 1980, borrowings of the Corporation and its consolidated finance subsidiaries totaled $3.8 billion. Of this, $2.6 billion, or 68%, represented long-term borrowings, while short-term borrowings were $1.2 billion, or 32%.

Fixed-rate debt plus short-term debt supporting floating-rate receivables represented 80% of total debt.

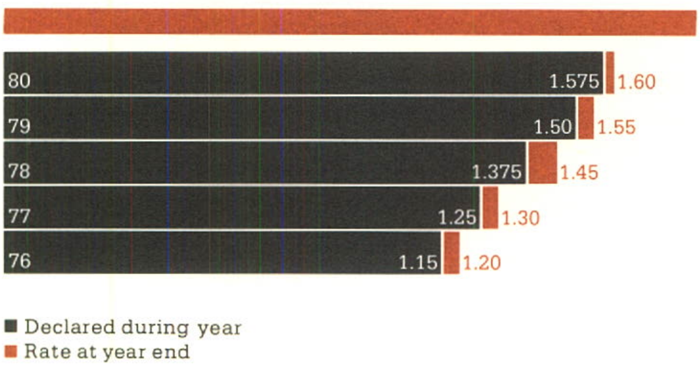
The liquidity of the Corporation is in part inseparable from that of the Finance Business and is a function of the earnings and nature of the assets in that business as well as a function of the dividends received from the nonconsolidated subsidiaries. Dividends paid by the nonconsolidated subsidiaries to the Corporation in 1980, 1979 and 1978 were $44 million, $46 million and $32 million, respectively.

Dividends

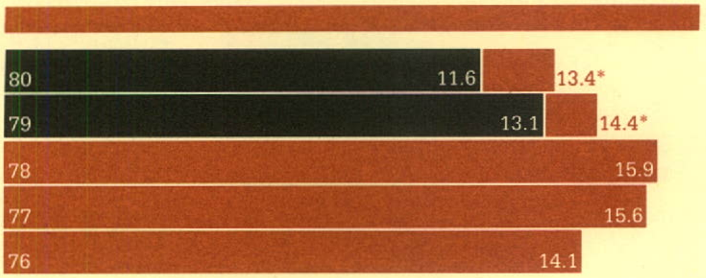
The 1980 payout percentage for preferred and common stock dividends declared was 55% of total 1980 earnings before *unrealized* foreign exchange gains and losses; this compares with 49% in 1979 and 40% in 1978. Dividend payouts are based on earnings before *unrealized* foreign exchange gains and losses since such gains and losses do not impact funds available for dividend payments.

The payout percentage increased in 1980 and 1979 as it was significantly affected by the impact of the change to LIFO which has the effect of reducing reported earnings. The change to LIFO also substantially benefits the Corporation's cash flow and will not impair Household's ability to extend its 28-year record of higher annual cash dividend payments to common shareholders.

Dividends per Common Share
(in dollars)

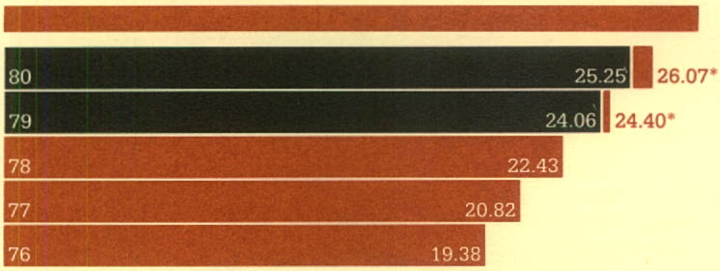


Return on Shareholders' Average Book Equity
(consolidated, before *unrealized* foreign exchange effects)



■ Based on the LIFO method of valuing inventories
■ Based on the FIFO method of valuing inventories
* Presented as supplemental information

Shareholders' Book Value per Fully Diluted Common Share
(in dollars)



■ Based on the LIFO method of valuing inventories
■ Based on the FIFO method of valuing inventories
* Presented as supplemental information

Unrealized Foreign Exchange Gains and Losses

Net income comparisons for the Corporation are affected significantly by fluctuations in the Canadian dollar exchange rate as Household's foreign net asset exposure is the greatest in Canada. The Canadian dollar exchange rate decreased from 85.70¢ at December 31, 1979 to 83.86¢ at year-end 1980; this compares with an increase in the Canadian dollar exchange rate from 84.35¢ to 85.70¢ in 1979 and a decrease from 91.42¢ to 84.35¢ in 1978. Over the past eight quarters *unrealized* foreign exchange gains and losses have added as much as 29¢ to quarterly fully diluted earnings per share and reduced quarterly earnings by as much as 16¢ per fully diluted share; yet over this same period there has been no cumulative net effect on fully diluted earnings per share.

Household continues to believe that earnings before *unrealized* foreign exchange gains and losses more accurately represent the results of the Corporation as these *unrealized* gains and losses have no current impact on cash flow and their ultimate realization is highly uncertain.

Because of widespread dissatisfaction with the 1976 accounting pronouncement which required for the first time that *unrealized* foreign exchange gains and losses be included in reported net income, the Financial Accounting Standards Board has proposed an accounting standards revision which, if adopted, will eliminate *unrealized* foreign exchange fluctuations from the determination of net income. Household strongly supports this proposed change.

Return on Shareholders' Equity

Earnings from consolidated operations, before *unrealized* foreign exchange gains and losses, expressed as a percent of average consolidated shareholders' equity, decreased to 11.6% in 1980 from 13.1% in 1979; in 1978, prior to the change to LIFO, return on shareholders' average book equity was 15.9%.

It is Household's stated objective to achieve a 15% return on equity funds invested. This necessitates a careful allocation of asset resources, management of liabilities and dedication to overall expense control. The decision to change to the LIFO method of valuing domestic inventories will make it more difficult over the next few years to meet the Corporation's objectives for return on equity.

Shareholders' Book Value at Year End

The annual earnings on shareholders' equity, or book value, less dividends paid to shareholders, are reinvested in the Corporation's businesses to support future growth. In 1980, the amount of reinvested earnings was $60.7 million, increasing total shareholders' equity to $1.3 billion from $1.2 billion in 1979. In 1978, total shareholders' equity was $1.1 billion.

Shareholders' book value measures the value of the shareholders' interest in the Corporation. Although this measure, on a per share basis, may vary from market price, Household believes that increasing book value is a meaningful measure to shareholders over the long run. Household's book value per common share has increased 30% from $19.38 in 1976 to $25.25 at year-end 1980.

Segment Information

All amounts are stated in millions of dollars.

Industry Segment

Year Ended December 31	Identifiable Assets 1980	1979	1978	Net Sales and Revenues 1980	1979	1978	Operating Profit 1980	1979	1978
Finance									
Consumer	**$3,981.0**	$4,270.8	$3,389.9	**$ 856.8**	$ 762.3	$ 674.1	**$135.0**	$128.0	$162.5
Commercial	**447.3**	348.1	175.6	**40.4**	25.8	14.8	**9.2***	(1.0)*	0.9*
Ordinary life insurance	**214.9**	196.2	145.4	**64.2**	53.9	49.8	**7.2**	6.0	5.3
Total Finance	**4,643.2**	4,815.1	3,710.9	**961.4**	842.0	738.7	**151.4**	133.0	168.7
Merchandising									
Retail:									
General merchandise	**653.0**	621.0	561.9	**1,779.7**	1,582.4	1,350.5	**57.3**	70.5	74.8
Supermarkets	**323.1**	286.9	236.3	**1,791.8**	1,473.4	1,193.0	**43.9**	35.6	38.2
Home furnishings	**83.0**	67.5	64.3	**148.0**	142.3	122.3	**3.3**	10.2	8.4
Total retail	**1,059.1**	975.4	862.5	**3,719.5**	3,198.1	2,665.8	**104.5**	116.3	121.4
Wholesale	**213.7**	222.6	181.2	**742.9**	720.7	646.8	**20.4**	23.0	31.6
Total Merchandising	**1,272.8**	1,198.0	1,043.7	**4,462.4**	3,918.8	3,312.6	**124.9**	139.3	153.0
Manufacturing									
Outdoor living products	**87.7**	91.1	76.1	**133.9**	120.6	111.1	**13.0**	14.4	17.2
Commercial refrigeration products	**58.3**	50.4	44.0	**86.1**	76.4	74.3	**15.8**	17.2	20.4
Industrial products	**25.9**	23.2	24.1	**45.1**	48.6	46.8	**6.4**	7.0	5.1
Total Manufacturing	**171.9**	164.7	144.2	**265.1**	245.6	232.2	**35.2**	38.6	42.7
Transportation									
Rental and Leasing	**659.4**	477.9	417.7	**366.6**	310.8	261.8	**70.2**	59.5	49.6
Air Travel	**93.3**			**126.5**			**8.4**		
Total Transportation	**752.7**	477.9	417.7	**493.1**	310.8	261.8	**78.6**	59.5	49.6
Combined Businesses	**$6,840.6**	$6,655.7	$5,316.5	**$6,182.0**	$5,317.2	$4,545.3	**$390.1**	$370.4	$414.0

*The trend in the Finance Business commercial segment is impacted by leveraged leasing and other tax-benefited investments. Aftertax profits for this segment were $14.4, $8.1, and $3.6 million for 1980, 1979, and 1978, respectively.

Geographic Area

	Identifiable Assets 1980	1979	1978	Net Sales and Revenues 1980	1979	1978	Operating Profit 1980	1979	1978
Finance									
United States	**$3,979.5**	$4,121.8	$3,092.8	**$ 804.9**	$ 707.7	$ 612.2	**$120.6**	$118.3	$143.0
Canada	**479.4**	569.8	543.5	**116.6**	110.9	113.0	**28.2**	14.0	24.3
Other	**184.3**	123.5	74.6	**39.9**	23.4	13.5	**2.6**	0.7	1.4
Total Finance	**4,643.2**	4,815.1	3,710.9	**961.4**	842.0	738.7	**151.4**	133.0	168.7
Merchandising									
United States	**1,272.8**	1,198.0	1,043.7	**4,462.4**	3,918.8	3,312.6	**124.9**	139.3	153.0
Manufacturing									
United States	**129.9**	129.5	112.5	**207.6**	199.1	192.9	**22.2**	28.0	34.3
Europe and Canada	**42.0**	35.2	31.7	**57.5**	46.5	39.3	**13.0**	10.6	8.4
Total Manufacturing	**171.9**	164.7	144.2	**265.1**	245.6	232.2	**35.2**	38.6	42.7
Transportation									
United States	**752.7**	477.9	417.7	**493.1**	310.8	261.8	**78.6**	59.5	49.6
Combined Businesses	**$6,840.6**	$6,655.7	$5,316.5	**$6,182.0**	$5,317.2	$4,545.3	**$390.1**	$370.4	$414.0

1. Description of Segments

Finance is classified into three industry segments. The consumer segment includes personal loan and credit insurance services offered through an international network of branch offices and vehicle contracts purchased from Chrysler Financial Corporation. The commercial segment consists primarily of the Company's privately negotiated investments in leveraged leases and limited-term preferred stocks. The ordinary life insurance segment offers a complete line of ordinary life insurance products.

Merchandising includes both retail and wholesale merchandising. Within the retail segment, it operates stores characterized as general merchandise, supermarket, and home furnishings. In the wholesale segment, its operations offer a wide selection of general merchandise to franchisees for subsequent resale to consumers.

Manufacturing produces outdoor living and commercial refrigeration products as well as other industrial products. Outdoor living products are distributed to customers throughout the world. These products include vacuum bottles, jugs and chests, and barbecue grills. Commercial refrigeration products include automatic ice machines and electric water coolers.

Rental and Leasing is engaged primarily in the rental and leasing of cars and trucks and Air Travel operates as an air carrier of passengers, freight, and mail.

Intersegment and intergeographic transactions are insignificant.

2. Depreciation and Amortization and Capital Expenditures

Depreciation and amortization and capital expenditures by segment were as follows (millions of dollars):

	Depreciation and Amortization			Capital Expenditures		
	1980	1979	1978	**1980**	1979	1978
Finance—Primarily Consumer	**$ 7.7**	$ 6.7	$ 6.2	**$ 10.0**	$ 14.6	$ 17.2
Merchandising:						
Retail:						
General merchandise	**16.9**	14.4	13.4	**40.1**	43.9	26.7
Supermarkets	**15.4**	12.9	10.7	**44.2**	50.3	32.1
Home furnishings	**2.1**	1.8	1.6	**5.3**	3.7	1.5
Total Retail	**34.4**	29.1	25.7	**89.6**	97.9	60.3
Wholesale	**4.6**	4.5	4.4	**6.3**	8.9	9.5
Total Merchandising	**39.0**	33.6	30.1	**95.9**	106.8	69.8
Manufacturing:						
Outdoor living products	**4.6**	4.3	3.6	**5.2**	4.5	4.2
Commercial refrigeration products	**1.5**	1.2	1.0	**6.7**	2.6	1.1
Industrial products	**1.0**	1.1	1.1	**2.5**	1.3	1.6
Total Manufacturing	**7.1**	6.6	5.7	**14.4**	8.4	6.9
Transportation:						
Rental and Leasing:						
Property and equipment	**4.6**	3.8	3.9	**23.0**	15.7	8.8
Revenue-earning assets*	**78.6**	65.6	43.1	**218.5**	94.8	102.8
Air Travel	**6.7**			**5.8**		
Total Transportation	**89.9**	69.4	47.0	**247.3**	110.5	111.6
Combined Businesses	**$143.7**	$116.3	$89.0	**$367.6**	$240.3	$205.5

*For revenue-earning assets, depreciation is shown net of gains and losses and capital expenditures are shown net of proceeds from disposal of used vehicles.

3. Operating Profit

Beginning in 1979 the Merchandising and Manufacturing Businesses adopted the LIFO method of valuing domestic inventories. The approximate reduction of 1980 and 1979 operating profits due to this change was $31.7 and $18.2 million for the retail general merchandise segment, $7 and $5.5 million for the supermarket segment, $2.7 and $1 million for the home furnishings segment, $3.2 and $3.9 million for the wholesale general merchandise segment, $1.6 and $3.6 million for the outdoor living products segment, $3 and $.6 million for the commercial refrigeration products segment, and $.9 and $.5 million for the industrial products segment, respectively. See Summary of Significant Accounting Policies on page 40 for further comments on LIFO.

Operating profits are stated net of interest expense for the Finance Business because of the integral nature and significance of interest expense to operations of the business. Operating profits for all other businesses are stated on a before interest expense basis.

4. Reconciliations

Reconciliations of identifiable assets, net sales and revenues, and operating profit to amounts shown in financial statements included elsewhere in this report are as follows (millions of dollars):

	Identifiable Assets			Net Sales and Revenues			Operating Profit		
	1980	1979	1978	**1980**	1979	1978	**1980**	1979	1978
Finance	**$4,643.2**	$4,815.1	$3,710.9	**$ 961.4**	$ 842.0	$ 738.7	**$151.4**	$133.0	$168.7
Investments in nonconsolidated subsidiaries	**888.9**	835.7	763.7						
Receivables from nonconsolidated subsidiaries	**19.5**	14.4	18.7						
Corporate assets	**10.1**								
Equity in nonconsolidated finance business subsidiaries				**(1.8)**	0.6	1.1	**(1.8)**	0.6	1.1
Unrealized foreign exchange gains (losses):									
Canada							**(10.3)**	6.9	(34.8)
Other							**2.6**	0.5	1.5
Total Finance	**$5,561.7**	$5,665.2	$4,493.3	**$ 959.6**	$ 842.6	$ 739.8	**$141.9**	$141.0	$136.5
Merchandising	**$1,272.8**	$1,198.0	$1,043.7	**$4,462.4**	$3,918.8	$3,312.6	**$124.9**	$139.3	$153.0
Corporate assets	**10.4**	16.6	19.1						
General corporate expenses							**(8.1)**	(4.4)	(4.4)
Interest expense							**(46.1)**	(32.8)	(26.0)
Total Merchandising	**$1,283.2**	$1,214.6	$1,062.8	**$4,462.4**	$3,918.8	$3,312.6	**$ 70.7**	$102.1	$122.6
Manufacturing	**$ 171.9**	$ 164.7	$ 144.2	**$ 265.1**	$ 245.6	$ 232.2	**$ 35.2**	$ 38.6	$ 42.7
Corporate assets	**10.5**	5.8	3.5						
General corporate expenses							**(2.3)**	(2.3)	(1.4)
Interest expense							**(2.2)**	(1.4)	(0.5)
Unrealized foreign exchange gains (losses)							**(0.6)**	0.1	
Total Manufacturing	**$ 182.4**	$ 170.5	$ 147.7	**$ 265.1**	$ 245.6	$ 232.2	**$ 30.1**	$ 35.0	$ 40.8
Transportation	**$ 752.7**	$ 477.9	$ 417.7	**$ 493.1**	$ 310.8	$ 261.8	**$ 78.6**	$ 59.5	$ 49.6
Air Travel*	**(93.3)**			**(126.5)**			**(8.4)**		
Interest expense							**(40.4)**	(28.4)	(20.5)
Total Rental and Leasing	**$ 659.4**	$ 477.9	$ 417.7	**$ 366.6**	$ 310.8	$ 261.8	**$ 29.8**	$ 31.1	$ 29.1

*Deducted since financial statements for this Business are not included in this report.

Summary of Significant Accounting Policies

Basis of Consolidation

The financial statements of Household Finance Corporation include the accounts of the Company ("Household") and its subsidiaries. Subsidiaries whose operations are unrelated to the finance operations of Household or whose operations are not significant are not consolidated. Insurance operations are consolidated with the finance operations because of the integral nature and significance of the credit insurance operations. Financial statements of Merchandising (City Products Corporation), Manufacturing (King-Seeley Thermos Co.), and Rental and Leasing (National Car Rental System, Inc.) subsidiaries are presented following Household's financial statements because they are significant. The separate financial statements of the Merchandising, Manufacturing, and Rental and Leasing Businesses include all of their respective subsidiaries. All investments in nonconsolidated subsidiaries are accounted for by the equity method.

Finance Accounting

Finance income on precomputed interest loans and sales contracts is recognized as revenue generally when cash is received (collection basis) using the sum-of-the-digits method (Rule of 78) modified where appropriate to conform to state regulatory laws, except for longer maturity loans secured by real estate on which finance charges are recognized using annual percentage or graduated rate methods. Finance income on simple interest loans, delinquency fees, extension fees, and acquisition charges nonrefundable under state laws are recognized as revenues when cash is received. Discount earned on purchased vehicle contracts is recognized as revenue on the accrual basis of accounting using an effective yield method. Certain operating expenses are also recorded on a cash basis; conversion to a full accrual method of accounting would not materially change the reported financial position and results of operations. Provisions for credit losses are charged to income in amounts sufficient to maintain the credit loss reserves at levels necessary to cover anticipated losses on receivables. Accounts which are considered uncollectible or which require unwarranted collection costs are written off.

Insurance Accounting

Credit insurance premiums are recognized as revenue over the period at risk in relationship to anticipated claim patterns. Premiums for ordinary life risks are recognized as revenue when due. Policy liabilities are established using actuarially derived assumptions of mortality, morbidity, refunds, withdrawals, interest, and future maintenance and settlement expenses. Costs associated with acquisition of insurance risks are deferred and generally amortized in relationship to revenues.

Inventories

Inventories are stated at the lower of cost or market. In 1979, determination of cost for all inventories of the Merchandising Business and for domestic inventories of the Manufacturing Business was changed to the last-in, first-out (LIFO) method to better match current costs with current revenues. Prior to 1979, cost was determined using the first-in, first-out (FIFO) method and, for certain inventories of the Merchandising Business, average cost and retail methods. Under the LIFO method, inventories on hand at the close of business on December 31, 1978 became opening inventories for LIFO purposes on January 1, 1979. Accordingly, adoption of LIFO did not change 1978 financial statements. The change to LIFO reduced 1980 and 1979 earnings as follows (millions of dollars except per share data):

	1980	1979
Reduction in income:		
Income of Merchandising Business	**$22.6**	$14.5
Income of Manufacturing Business	**2.8**	2.4
Net reduction in income of Household	**$25.4**	$16.9
Reduction in earnings per share:		
Primary	**$0.55**	$0.37
Fully diluted	**$0.50**	$0.33

This reduction in income is computed by substituting FIFO for LIFO inventory values in cost of sales calculations and adjusting for the related tax benefits. Reduced borrowing costs associated with tax savings obtained by using LIFO have been included in both LIFO and FIFO earnings.

The reduction in 1980 would have been greater except inventory quantities in certain LIFO pools were reduced in 1980. This resulted in liquidation of LIFO quantities carried at 1979 costs which were lower than the cost of 1980 purchases, the effect of which decreased cost of goods sold and increased net income by approximately $6.4 and $3.2 million, respectively, in Merchandising and $1 and $.5 million, respectively, in Manufacturing or $0.07 per share on a fully diluted basis.

Replacement cost exceeds the LIFO value of inventories by approximately $84.8 and $36.7 million for the Merchandising Business and $10.7 and $7.3 million for the Manufacturing Business at December 31, 1980 and 1979, respectively.

Investments in Securities
Investments in securities are carried at cost or amortized cost, as appropriate. Marketable equity securities, which are held by the insurance subsidiaries, are carried at market if significantly different from aggregate cost.

Property and Equipment
Property and equipment are carried at cost and depreciated over estimated useful lives or terms of the capitalized lease using various rates and methods.

Cost of Businesses Acquired
Cost of investments in excess of net assets of businesses acquired prior to October 1970 are not being amortized because management believes there has been no diminution in the value of these investments. These excess costs at December 31, 1980 and 1979 were \$8.8 million for the Merchandising Business, \$7.9 million for the Manufacturing Business, \$11.4 million for the Rental and Leasing Business, and \$108.4 million for the Finance Business, of which \$107.5 million is applicable to its investment in the Rental and Leasing Business. Excess costs of investments in businesses acquired subsequent to October 1970 are being amortized over periods ranging from 15 to 40 years; unamortized amounts at December 31, 1980 approximated \$.4 million for the Rental and Leasing Business and \$11.1 million for the Finance Business, of which \$2.4 million was applicable to Household's investment in the Rental and Leasing Business.

Preopening Costs
Costs associated with the opening of finance branch offices, retail stores, and transportation facilities are generally expensed as incurred.

Retirement Plans
The respective businesses have retirement plans covering substantially all employees, including certain employees in foreign countries. Pension costs are funded as accrued. Unfunded actuarial liabilities are amortized over periods ranging from 15 to 40 years. The predominant interest rate used to determine the present value of accumulated plan benefits was 6.5%.

Compensated Absences
The Financial Accounting Standards Board issued Statement No. 43, "Accounting for Compensated Absences," in December 1980 requiring accrual of employees' compensation for future absences under specified conditions. Household has elected early compliance and has restated prior years' financial statements. The effect on income statements of prior years is insignificant, and accordingly, the accompanying statements of income have not been changed. The cumulative aftertax effect of these changes on consolidated retained earnings at December 31, 1979 and at the end of each of the four preceding years was \$6.5 million, of which \$3.4 million applied to the Finance Business, \$1.5 million applied to the Merchandising Business, \$.6 million applied to the Manufacturing Business, and \$1 million applied to the Rental and Leasing Business.

Taxes on Income
The Company and its United States subsidiaries (other than life insurance subsidiaries) file consolidated Federal income tax returns. Portions of the consolidated Federal income tax provision are allocated to the nonconsolidated subsidiaries in amounts generally equivalent to those determinable if each of the nonconsolidated subsidiaries filed separate consolidated returns for their respective businesses, except that investment tax credits generated by the Rental and Leasing Business are allocated regardless of realization on a separate return basis. The flow-through method of accounting for investment tax credits is followed, except for investment tax credits generated by Finance Business leveraged leasing transactions for which the deferral method is followed. Deferred income taxes on timing differences of nonconsolidated nonfinance subsidiaries in excess of pretax financial income of such subsidiaries are recorded by Household.

Earnings Per Share
Primary earnings per common share are computed based on the average number of common shares and common stock equivalents outstanding during each year. Fully diluted earnings per common share are determined on the assumption that convertible preferred shares were converted into common shares as of the beginning of each year and that options to purchase common shares were exercised at the beginning of each year or time of issue, if later.

Statements of Income

All amounts other than per share data are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Income from Finance Business			
Revenues:			
Finance income	**$783.5**	$681.8	$588.2
Insurance premiums and commissions	**128.5**	112.6	108.6
Investment and other income	**47.6**	48.2	43.0
Total Revenues	**959.6**	842.6	739.8
Expenses:			
Salaries and fringe benefits	**151.5**	149.9	130.6
Other operating expenses	**145.7**	134.1	118.5
Provision for credit losses	**74.6**	88.0	72.8
Policyholders' benefits	**86.1**	79.0	74.5
Interest:			
Long-term	**159.9**	138.7	118.5
Short-term	**192.2**	119.3	55.1
Total Expenses	**810.0**	709.0	570.0
Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**149.6**	133.6	169.8
Unrealized Foreign Exchange Gains (Losses)	**(7.7)**	7.4	(33.3)
Income Before Provision for Taxes on Income	**141.9**	141.0	136.5
Provision for Taxes on Income	**52.0**	50.6	62.1
Income from Finance Business	**89.9**	90.4	74.4
Income from Merchandising Business	**43.0**	57.1	64.0
Income from Manufacturing Business	**17.0**	19.7	21.2
Income from Transportation Business:			
Rental and Leasing	**17.9**	17.6	16.1
Air Travel	**1.5**		
Expense from Corporate Operations	**(28.3)**	(23.6)	(22.5)
Net Income	**$141.0**	$161.2	$153.2
Earnings Per Common Share			
Primary	**$ 2.88**	$ 3.33	$ 3.18
Fully diluted	**$ 2.75**	$ 3.15	$ 2.99

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements. Information regarding the change to the LIFO method for valuing inventories is summarized on page 40.

Balance Sheets

All amounts are stated in millions of dollars.

December 31	1980	1979
Assets		
Cash	$ 35.9	$ 29.9
Investments in Securities	402.5	480.5
Receivables:		
Consumer	3,308.3	3,605.3
Purchased vehicle contracts	538.7	490.9
Commercial	387.2	277.7
Total Finance Receivables	4,234.2	4,373.9
Less: Credit loss reserves	(145.4)	(157.4)
Insurance policy and claim reserves applicable to finance receivables	(113.7)	(145.7)
Finance Receivables—net	3,975.1	4,070.8
Revolving credit accounts purchased from Merchandising Subsidiaries	57.0	72.3
Receivables—net	4,032.1	4,143.1
Investments in Subsidiaries:		
Merchandising	490.4	471.4
Manufacturing	139.7	132.7
Transportation: Rental and Leasing	203.4	195.5
Air Travel	32.1	17.8
Other	23.3	18.3
Total Investments in Subsidiaries	888.9	835.7
Property and Equipment (less accumulated depreciation and amortization, 1980—$38.4; 1979—$36.2)	60.6	58.3
Other Assets	141.7	117.7
Total Assets	$5,561.7	$5,665.2
Liabilities and Shareholders' Equity		
Short-Term Debt	$1,216.6	$1,623.6
Accounts Payable and Other Liabilities	263.7	262.1
Insurance Policy and Claim Reserves—applicable to risks other than finance receivables	177.6	199.6
Taxes on Income—Deferred	49.4	6.3
Senior Long-Term Debt	2,271.1	2,048.7
Senior Subordinated Long-Term Debt	289.9	292.4
Total Liabilities	4,268.3	4,432.7
Shareholders' Equity: Convertible preferred stock	13.9	14.8
Common stock	139.2	138.3
Additional paid-in capital	88.1	87.9
Retained earnings	1,052.2	991.5
Total Shareholders' Equity	1,293.4	1,232.5
Total Liabilities and Shareholders' Equity	$5,561.7	$5,665.2

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Resources Provided			
Operations:			
Net income	$ 141.0	$ 161.2	$ 153.2
Nonfund transactions:			
Provision for credit losses	74.6	88.0	72.8
Future policyholders' benefits—net increase	50.4	54.6	33.2
Undistributed earnings of nonconsolidated subsidiaries	(33.9)	(49.5)	(70.8)
Unrealized foreign exchange (gains) losses	7.7	(7.4)	33.3
Depreciation and amortization	7.7	6.7	6.2
Current taxes on income—net increase (decrease)	(1.8)	(45.9)	27.1
Deferred income taxes	52.0	49.0	4.0
Accounts payable and accrued expenses—net increase	6.7	15.4	6.7
Other—net	(26.7)	(13.0)	(4.0)
Total Resources Provided by Operations	277.7	259.1	261.7
Collections on receivables (except finance income and insurance premiums included in net income)	1,892.7	1,724.5	1,567.9
Total Resources Provided by Operations and Collections on Receivables	2,170.4	1,983.6	1,829.6
Short-term debt—net increase		925.2	50.8
Long-term debt issued	255.3	117.3	307.1
Investments in securities—net decrease	78.0		
Total Resources Provided	$2,503.7	$3,026.1	$2,187.5
Resources Applied			
Loans made and acquired (excluding balances on refinanced contracts)	$1,768.4	$2,758.6	$1,925.1
Revolving credit accounts purchased from Merchandising Subsidiaries	112.6	125.0	112.3
Investments:			
Securities—net increase		37.3	18.8
Property and equipment	10.0	14.6	17.2
Nonconsolidated subsidiaries	19.7	23.6	
Short-term debt—net decrease	407.0		
Long-term debt paid	39.5	41.0	25.6
Cash dividends	80.3	76.7	70.7
Other—net	60.2	(21.4)	(10.2)
Cash—increase (decrease)	6.0	(29.3)	28.0
Total Resources Applied	$2,503.7	$3,026.1	$2,187.5

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Statements of Changes in Shareholders' Equity

All amounts other than share data are stated in millions of dollars.

Amounts	Common Stock	Convertible Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 1977	$135.7	$17.2	$85.5	$ 824.5*	$1,062.9
Net income				153.2	153.2
Cash dividends:					
Preferred—at stated rates				(8.0)	(8.0)
Common—$1.375 a share				(62.7)	(62.7)
Conversion of preferred stock into common	1.4	(1.4)			
Exercise of common stock options	0.1		1.1		1.2
Balance at December 31, 1978	137.2	15.8	86.6	907.0*	1,146.6
Net income				161.2	161.2
Cash dividends:					
Preferred—at stated rates				(7.5)	(7.5)
Common—$1.50 a share				(69.2)	(69.2)
Conversion of preferred stock into common	1.0	(1.0)			
Exercise of common stock options	0.1		1.3		1.4
Balance at December 31, 1979	138.3	14.8	87.9	991.5*	1,232.5
Net income				**141.0**	**141.0**
Cash dividends:					
Preferred—at stated rates				**(7.2)**	**(7.2)**
Common—$1.575 a share				**(73.1)**	**(73.1)**
Conversion of preferred stock into common	**0.9**	**(0.9)**			
Exercise of common stock options			**0.2**		**0.2**
Balance at December 31, 1980	**$139.2**	**$13.9**	**$88.1**	**$1,052.2**	**$1,293.4**

Shares	Common Stock	Convertible Preferred Stock $2.375	Convertible Preferred Stock $2.50
Balance at December 31, 1977	45,292,489	984,365	2,360,684
Conversion of preferred stock into common	493,614	(219,188)	(314)
Exercise of common stock options	67,625		
Balance at December 31, 1978	45,853,728	765,177	2,360,370
Conversion of preferred stock into common	342,062	(149,526)	(3,778)
Exercise of common stock options	102,500		
Balance at December 31, 1979	46,298,290	615,651	2,356,592
Conversion of preferred stock into common	**281,167**	**(70,827)**	**(81,216)**
Exercise of common stock options	**11,450**		
Balance at December 31, 1980	**46,590,907**	**544,824**	**2,275,376**

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.
*Restated to comply with Financial Accounting Standards Board Statement No. 43. See Compensated Absences on page 41.

Notes to Financial Statements

1. Investments in Securities

Investments in securities at December 31, 1980 and 1979 were as follows (millions of dollars):

	1980		1979	
	Cost	**Market**	Cost	Market
Marketable equity securities:				
Common stocks	**$ 40.3**	**$51.9**	$ 40.3	$43.4
Preferred stocks	**3.9**	**3.5**	4.8	4.4
Total	**44.2**	**55.4**	45.1	47.8
Other:				
Commercial paper	**28.9**	**28.9**	78.1	78.1
Term preferred stocks	**27.1**	**21.7**	22.6	20.0
Government bonds	**97.5**	**80.7**	86.7	79.6
Corporate bonds	**97.2**	**81.6**	112.3	99.1
Mortgage loans on real estate	**102.9**	*	131.0	*
Real estate	**4.7**	*	4.7	*
Total	**358.3**		435.4	
Total	**$402.5**		$480.5	

*Amounts not readily determinable.

Investments were held by insurance subsidiaries except for investments in commercial paper and government bonds of $5.4 and $3.2 million, respectively, at December 31, 1980 and $24.5 and $1.5 million, respectively, at December 31, 1979.

At December 31, 1980, marketable equity securities had gross unrealized gains of $12.7 million and gross unrealized losses of $1.5 million.

Sales of marketable equity securities resulted in net realized gains of $6.9, $3.5, and $1.5 million for the years ended December 31, 1980, 1979, and 1978, respectively. The cost of securities sold was determined using principally the first-in, first-out (FIFO) method.

At December 31, 1980 and 1979 investments in bonds with a carrying value of $34.1 and $39.9 million, respectively, were on deposit with certain governmental agencies in accordance with statutory requirements.

2. Receivables

Receivables at December 31, 1980 and 1979 and related maximum terms were as follows (millions of dollars):

	Amount		Maximum Terms in Months	
	1980	1979	**1980**	1979
Consumer finance receivables:				
Precomputed interest loans	**$2,668.2**	$2,899.2	**180**	180
Simple interest loans	**1,195.7**	1,058.6	**180**	180
Sales finance contracts	**488.6**	662.9	**60**	60
Total	**4,352.5**	4,620.7		
Less unearned income	**1,044.2**	1,015.4		
Total	**3,308.3**	3,605.3		
Purchased vehicle contracts	**$ 600.1**	$ 562.1	**49**	49
Less unearned income	**61.4**	71.2		
Total	**538.7**	490.9		
Commercial finance receivables	**465.0**	340.3		
Less unearned income	**77.8**	62.6		
Total	**387.2**	277.7		
Revolving credit accounts	**57.0**	72.3	**36**	36

Contractual maturities of consumer finance receivables at December 31, 1980 were as follows (millions of dollars):

	Total	1981	1982	There-after
Precomputed interest loans	$2,668.2	$ 773.4	$548.2	$1,346.6
Simple interest loans	1,195.7	435.3	229.6	530.8
Sales finance contracts	488.6	315.7	115.0	57.9
Total	$4,352.5	$1,524.4	$892.8	$1,935.3

It is the experience of the Company that a substantial portion of the existing consumer loans will not be paid to maturity in accordance with initial contractual terms. Therefore, the above tabulation is not to be regarded as a forecast of future cash collections. The ratios of cash collections of principal during the year to the average principal balances outstanding during the year approximated 43% and 47% in 1980 and 1979, respectively.

In 1979 the Company entered into an agreement with Chrysler Financial Corporation to purchase certain vehicle instalment contracts without recourse. Under terms of the agreement, the Company withheld 10% of the purchase price as a deferred payment against which the Company may charge defaulted obligations. The deferred payment will be paid to Chrysler Financial as the receivables are liquidated. At December 31, 1980 and 1979, the deferred payment amounted to $60.9 and $56.2 million, respectively. The Company is committed to purchase additional vehicle contracts offered for sale by Chrysler Financial at their option provided, however, that the net cash advanced not exceed $500 million at any time. The agreement was amended in 1980 to extend the commitment to purchase receivables to December 1983 and to provide for a floating yield tied to Household's cost of short-term borrowings. Contractual maturities of purchased vehicle contracts at December 31, 1980 were as follows: 1981, $383.7 million; 1982, $174.7 million; and thereafter, $41.7 million. Experience has shown that a substantial portion of these vehicle contracts is paid before maturity.

Commercial finance receivables consist principally of privately negotiated investments in leveraged leases and limited-term preferred stocks. Investments in preferred stocks by the Finance Business are included in commercial receivables in recognition of the mandatory redemption features. Amortization of investment tax credits applicable to leveraged leasing transactions, previously reported as a reduction of the provision for taxes on income, has been included in finance income to better present the economic substance of leveraged leasing transactions. The Company's investment in leveraged leases at December 31, 1980 and 1979 was composed of the following elements (millions of dollars):

	1980	1979
Rentals receivable (net of principal and interest payable on nonrecourse debt)	**$165.2**	$126.8
Estimated residual value of leased assets	**108.3**	75.3
Less: Unearned income	**(39.1)**	(28.0)
Unearned investment tax credit	**(37.3)**	(34.6)
Total	**$197.1**	$139.5

The Company participates in an ongoing program of purchasing an undivided interest in revolving credit accounts from its Merchandising Business. The Company charges a discount which is calculated to cover its applicable costs, principally interest. Earned discount, which is included in finance income, amounted to $7.5, $5.7, and $5.2 million for the years ended December 31, 1980, 1979, and 1978, respectively. These revolving credit accounts had a weighted average remaining maturity of 22 months at December 31, 1980.

3. Investments in Subsidiaries

Investments of $23.3 million in 1980 and $18.3 million in 1979 in other subsidiaries included a wholly-owned savings and loan association (Keystone Savings and Loan Association), a 49% owned Australian finance affiliate (David Jones—Household Finance Limited), and several wholly-owned industrial bank and thrift subsidiaries.

The undistributed earnings of all nonconsolidated subsidiaries included in consolidated retained earnings at December 31, 1980 and 1979 amounted to approximately $530.5 and $496.6 million, respectively.

4. Short-Term Debt

Short-term debt data were as follows (millions of dollars):

	Outstanding at December 31			
	Balance of Borrowings		Weighted Average Interest Rates	
	1980	1979	1980	1979
Commercial paper	**$ 951.0**	$1,365.6	**19.2%**	13.7%
Master notes	**231.2**	213.5	**16.8**	12.7
Bank and other borrowings	**34.4**	44.5	**17.8**	16.2
Total	**$1,216.6**	$1,623.6	**18.8%**	13.7%

	Average Borrowings		
	1980	1979	1978
Commercial paper	**$1,223.2**	$ 830.0	$505.5
Master notes	**239.2**	182.6	168.5
Bank and other borrowings	**21.4**	18.1	12.1
Total	**$1,483.8**	$1,030.7	$686.1

The maximum aggregate short-term debt outstanding at the end of any month was $1,849.9 and $1,746.4 million during 1980 and 1979, respectively. Weighted average interest rates on average aggregate short-term debt outstanding, excluding costs of maintaining lines of credit, during 1980, 1979, and 1978 were 13.1%, 11.4%, and 7.9%, respectively.

Lines of credit maintained with various banks at December 31, 1980 amounted to $1,294.7 million of which $1,172.1 million was unused. To support the availability of these lines, the Company pays commitment fees, maintains compensating balances, or utilizes a combination of both arrangements. Borrowings under these lines require additional compensating balances of 10% or a surcharge which varies with the prime rate. Compensating balance requirements totaled $21.9 million at December 31, 1980 and 1979 and annual commitment fee requirements for the years then ended totaled $3.5 million.

5. Long-Term Debt

Long-term debt at December 31, 1980 and 1979 was as follows (millions of dollars):

	1980	1979
Senior Debt:		
4⅜%, due 1981*	**$ 11.0**	$ 11.8
4⅜%, due 1987	**60.0**	60.0
4½%, due 1991	**100.0**	100.0
4⅝%, due 1984*	**13.2**	14.4
4¾%, due 1989	**85.0**	85.0
4⅞%, due 1981	**50.0**	50.0
4⅞%, due 1993	**125.0**	125.0
5%, due 1982*	**14.0**	16.0
5⅛%, due 1980		30.0
6⅜%, due 1988	**100.0**	100.0
7¼%, due 1990	**75.0**	75.0
7½%, due 1995	**100.0**	100.0
7½%, due 1997	**100.0**	100.0
7¾%, due 1999	**100.0**	100.0
7.85%, due 1986	**100.0**	100.0
8%, due 1984	**50.0**	50.0
8%, due 1992*	**25.1**	25.7
8.2%, due 2007	**100.0**	100.0
8.3%, due 1986	**75.0**	75.0
8⅜%, due 2003	**100.0**	100.0
8½%, due 1983	**100.0**	100.0
8½%, due 2001	**100.0**	100.0
9%, due 1985	**150.0**	150.0
9%, due 2000	**100.0**	100.0
10.4%, due 1981	**50.0**	50.0
10½%, due 1994*	**50.0**	50.0
12%, due 1987	**200.0**	
Bank notes, due 1982-1985 at interest rates varying with the London interbank offered rate plus the cost of reserves	**96.2**	36.3
8.46% Bank notes, due 1983	**44.5**	44.5
Master notes, ⅛ of 1% over 180 day commercial paper note yield	**5.5**	10.5
Total	**2,279.5**	2,059.2
Debentures in treasury	**(5.7)**	(7.5)
Unamortized discount	**(2.7)**	(3.0)
Total Senior Debt	**$2,271.1**	$2,048.7
Senior Subordinated Debt:		
8.45%, due 1997	**$ 100.0**	$ 100.0
8½%, due 1985	**25.0**	25.0
8¾%, due 1992*	**50.0**	50.0
9⅝%, due 2004*	**100.0**	100.0
9⅞%, due 1986*	**15.0**	17.5
Total	**290.0**	292.5
Unamortized discount	**(0.1)**	(0.1)
Total Senior Subordinated Debt	**$ 289.9**	$ 292.4

*Sinking fund debentures

Weighted average interest rates of senior and senior subordinated debt outstanding, giving effect to amortization of debt discount and expense, were 8.2% and 9%, respectively, at December 31, 1980 and 7.6% and 9%, respectively, at December 31, 1979.

The maturities and sinking fund requirements of the Company's long-term debt at December 31, 1980 were as follows (millions of dollars):

1981	$ 113.4
1982	42.5
1983	209.6
1984	87.2
1985	189.0
Thereafter	1,922.1

Certain provisions of the indentures covering the Company's debentures and the agreements covering its notes payable restrict the payment of dividends and the purchase or retirement of stock of any class. At December 31, 1980, under the most restrictive terms of the Company's various indentures and agreements, approximately $333.2 million of consolidated retained earnings was free of such restrictions.

6. Capital Stock

Capital stock authorized at December 31, 1980 and 1979 included 67.5 million shares of common stock with a par value of $1 a share and 8.2 million shares of two classes of convertible preferred stock without par value. At December 31, 1980, 4.6 million shares of common stock were reserved for conversion of preferred stock. Terms and amounts of the cumulative convertible preferred stock issues are summarized as follows:

	Total	$2.375	$ 2.50
Stated Value:			
Per share		$ 6.75	$ 4.50
Aggregate (millions of dollars):			
December 31, 1980	**$13.9**	**$ 3.7**	**$ 10.2**
December 31, 1979	$14.8	$ 4.2	$ 10.6
Preference value in involuntary liquidation—			
December 31, 1980:			
Per share		**$30.00**	**$18.00**
Aggregate (millions of dollars)	**$57.3**	**$ 16.3**	**$ 41.0**
Rate of conversion into common shares		2¼	1½
December 31, 1980 redemption price		**$50.00**	**$50.00**

Common stock option data and transactions for 1980, 1979, and 1978 are summarized as follows:

Shares Under Option	Number	Price Per Share
Outstanding at December 31, 1977	935,125	$10.82-$28.25
Granted	399,300	17.57- 21.25
Exercised	(67,625)	10.82- 18.88
Expired or cancelled	(150,225)	14.69- 28.25
Outstanding at December 31, 1978	1,116,575	10.82- 21.25
Granted	292,300	18.63- 20.82
Exercised	(102,500)	10.82- 18.88
Expired or cancelled	(68,650)	10.82- 20.44
Outstanding at December 31, 1979	1,237,725	10.82- 21.25
Granted	**370,300**	**15.69- 16.94**
Exercised	**(11,450)**	**12.75- 18.07**
Expired or cancelled	**(83,300)**	**14.75- 21.25**
Outstanding at December 31, 1980	**1,513,275**	**$10.82-$21.25**

Shares under exercisable options totaled 754,550, 561,204, and 490,196 and shares available for future grants totaled 1,234,700, 1,541,400, and 274,700 at December 31, 1980, 1979, and 1978, respectively.

7. Air Travel

In December 1980, the Company completed its acquisition of Wien Air Alaska, Inc. (Wien). The applicable percentage of Wien's profits and losses has been included in the Company's results of operations using the equity method from the date of each purchase of common stock. The aggregate purchase price exceeded the historical cost of net assets acquired by approximately $4.2 million. Such excess amount was allocated to aircraft for purchase accounting purposes. At December 31, 1980 Wien had approximately $2.9 million of unused investment tax credits available, most of which will expire by 1985. When utilized by Wien, the tax benefits will be accounted for by Household as an adjustment of the purchase price. Household's equity in Wien's net assets at December 31, 1980 is summarized as follows (millions of dollars):

Working capital	**$ 3.5**
Aircraft and ground equipment—net	**69.9**
Long-term debt	**(40.3)**
Other—net	**(1.0)**
Net Assets	**$ 32.1**

Certain provisions of Wien's loan agreements prohibit payment of cash dividends and require all proceeds (net of income taxes) from the sale of flight equipment to be applied to prepayment of the secured notes.

8. Taxes on Income

The provisions for taxes on income consisted of:

	1980	1979	1978
United States:			
Current	**$(21.3)**	$(5.1)	$46.9
Deferred	**55.9**	47.9	3.6
Foreign:			
Current	**21.3**	6.7	11.2
Deferred	**(3.9)**	1.1	0.4
Total	**$ 52.0**	$50.6	$62.1

The provisions for taxes on income resulted in effective tax rates which differed from the statutory Federal income tax rates as follows:

	1980	1979	1978
Statutory Federal income tax rate	**46.0%**	46.0%	48.0%
Increase (decrease) in rate resulting from:			
Changes in policyholders' surplus of stock life insurance company	**(3.8)**	(4.4)	(3.8)
Unrealized foreign exchange (gains) losses	**0.6**	(1.0)	3.7
State and local income taxes net of Federal tax benefit	**0.6**	1.5	2.0
Amortization of investment tax credits included in finance income	**(2.7)**	(2.1)	(0.6)
Dividends received deduction	**(4.7)**	(3.0)	(1.6)
Other—net	**0.6**	(1.1)	(2.2)
Effective tax rate	**36.6%**	35.9%	45.5%

For the years ended December 31, 1980, 1979, and 1978, taxable income from foreign operations was $29.5, $17.8, and $14.8 million, respectively. Effective tax rates on this income vary substantially due to the impact of unrealized foreign exchange gains and losses. Provision for taxes on income has not been made on $142.5 million of undistributed earnings of foreign subsidiaries at December 31, 1980 as it is the Company's intention to reinvest such earnings indefinitely. In addition, retained earnings of the life insurance subsidiary included approximately $78 million at December 31, 1980 which, under provisions of the Internal Revenue Code, is defined as "policyholders' surplus" and currently is not subject to income taxes. This surplus could become subject to income taxes at the then current rates under certain conditions including certain cash distributions to the parent company. Because the possibility of any significant portion of this surplus being taxed is considered to be remote, provision for deferred taxes has not been made. Deferred income tax provisions (credits) were as follows (millions of dollars):

	1980	1979	1978
Timing differences of nonconsolidated nonfinance subsidiaries in excess of amounts allocated to such subsidiaries:			
Depreciation	$ 8.6	$ (4.3)	$ (1.2)
Estimated investment tax credit recapture	4.1	1.3	2.6
Provision for credit losses	(12.1)	0.2	(0.4)
Unrealized foreign exchange gains (losses)	(2.7)	2.0	(10.8)
Leveraged leasing transactions:			
Gross rental income	(21.4)	(10.4)	(4.2)
Interest expense on nonrecourse debt	15.2	6.4	2.6
Accelerated depreciation	44.8	31.2	12.0
Investment tax credits estimated to be utilized currently on the Federal income tax return	10.9	27.6	8.6
Other—net	4.6	(5.0)	(5.2)
Total	$ 52.0	$ 49.0	$ 4.0

9. Corporate Expenses

Corporate expenses, which are of an overall, parent-company nature, include administrative costs and imputed compounded carrying costs related to net outflows of funds to carry investments in the Company's nonfinance businesses. These expenses were as follows (millions of dollars):

	1980	1979	1978
Administrative expenses	$ 9.3	$ 6.4	$ 6.9
Imputed carrying costs	44.4	37.7	35.8
Total	53.7	44.1	42.7
Less related income tax effects	25.4	20.5	20.2
Corporate expenses	$28.3	$23.6	$22.5

10. Retirement Plans

Retirement plan expenses were $6.2, $6.6, and $6.1 million for 1980, 1979, and 1978, respectively. A comparison of accumulated plan benefits and plan net assets at the date of the most recent actuarial valuation is presented below (millions of dollars):

December 31	1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	$ 47.4	$42.2
Nonvested	14.6	13.3
Total	$ 62.0	$55.5
Net assets available for benefits	$107.7	$84.7

11. Foreign Operations

Selected data applicable to foreign subsidiaries for the years ended December 31, 1980, 1979, and 1978 were as follows:

	Percent of Consolidated Total		
	1980	1979	1978
Assets	12%	12%	14%
Liabilities	4	4	5
Earnings before unrealized foreign exchange gains and losses	15	8	14
Net income	13	11	4

12. Intercompany Transactions

As a result of the Company's income tax allocation policy, Other Assets at December 31, 1980 and 1979 included receivables due from nonconsolidated subsidiaries of $13.5 and $8.3 million, respectively, and Accounts Payable and Other Liabilities included amounts payable to nonconsolidated subsidiaries of $14.1 and $12.6 million, respectively. Other Assets at December 31, 1980 and 1979 also included $6 million of dividends receivable from the Merchandising Business.

13. Commitments

Commitments at December 31, 1980 consisted primarily of property leases for Finance Business branch office space. Generally, these leases cover periods of from five to ten years and are renewable for a period of approximately the initial lease term. Rent expenses were $22.7, $21.8, and $17.7 million for the years ended December 31, 1980, 1979, and 1978, respectively. Annual rental commitments, excluding taxes and insurance, were as follows (millions of dollars):

Year Ended December 31	
1981	$21.8
1982	17.1
1983	13.0
1984	6.4
1985	3.7
Thereafter	14.8

In connection with National Car Rental System, Inc. commercial paper financing activities, the Company has agreed to maintain ownership of at least 80% of National's common stock, to cause National to maintain a ratio of debt to equity of no more than 6 to 1, and to maintain National's ratio of income before interest expense and taxes on income to interest expense of no less than 1.5 to 1.

14. Other Information

Information by major industry segment and geographic area is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 63 through 65. Advertising costs were $10.8, $11.8, and $10.5 million for the years ended December 31, 1980, 1979, and 1978, respectively.

15. Potential Subsequent Event

As of the date of this report, February 11, 1981, Household was negotiating to purchase a manufacturing company with annual sales volume of approximately $600 million.

Statements of Income

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Net Sales and Revenues	**$4,462.4**	$3,918.8	$3,312.6
Costs and Expenses			
Cost of sales, buying, and occupancy	**3,591.7**	3,136.2	2,616.3
Selling and administrative	**753.9**	647.7	547.7
Interest	**46.1**	32.8	26.0
Total Costs and Expenses	**4,391.7**	3,816.7	3,190.0
Income Before Provision for Taxes on Income	**70.7**	102.1	122.6
Provision for Taxes on Income			
Current	**27.3**	42.7	57.7
Deferred	**0.4**	2.3	0.9
Total Provision for Taxes on Income	**27.7**	45.0	58.6
Net Income	**$ 43.0**	$ 57.1	$ 64.0

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Resources Provided			
Operations:			
Net income	**$ 43.0**	$ 57.1	$ 64.0
Nonfund transactions:			
Depreciation and amortization	**39.0**	33.6	30.1
Other—net	**2.4**	1.7	1.7
Total Resources Provided by Operations	**84.4**	92.4	95.8
Proceeds from disposals of property and equipment	**5.2**	9.5	9.0
Long-term debt issued	**26.9**	45.7	53.7
Total Resources Provided	**$ 116.5**	$ 147.6	$ 158.5
Resources Applied			
Additions to property and equipment	**$ 95.9**	$ 106.8	$ 69.8
Dividends to Household	**24.0**	24.0	24.0
Long-term debt paid	**15.4**	16.6	16.9
Other—net	**(0.6)**	4.0	2.9
Working capital—increase (decrease)	**(18.2)**	(3.8)	44.9
Total Resources Applied	**$ 116.5**	$ 147.6	$ 158.5
Changes in Components of Working Capital			
Current Assets—increase (decrease):			
Cash	**$ (0.6)**	$ (0.4)	$ (10.6)
Receivables	**35.4**	5.0	(5.4)
Inventories	**(17.1)**	75.1	112.0
Prepaid expenses	**(0.2)**	4.4	2.9
Current Liabilities—(increase) decrease:			
Accounts payable and other liabilities, etc.	**(34.1)**	(91.2)	(48.7)
Federal taxes on income	**(1.6)**	3.3	(5.3)
Working Capital—Increase (Decrease)	**$ (18.2)**	$ (3.8)	$ 44.9

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements. Information regarding the change to the LIFO method for valuing inventories is summarized on page 40.

Balance Sheets

All amounts are stated in millions of dollars.

December 31	1980	1979
Assets		
Current Assets:		
Cash	$ 3.5	$ 4.1
Notes and accounts receivable (less allowance for doubtful accounts, 1980—$10.4; 1979—$11.1)	148.8	113.4
Inventories (FIFO value—1980, $747.8; 1979, $720.3)	674.6	691.7
Prepaid expenses	14.1	14.3
Total Current Assets	841.0	823.5
Property and Equipment:		
Land	22.9	23.2
Buildings	108.8	103.2
Leasehold improvements	60.7	50.7
Fixtures and equipment	312.4	276.2
Less accumulated depreciation and amortization	(212.6)	(194.4)
Total Owned	292.2	258.9
Land and buildings under capitalized leases	153.3	134.2
Equipment under capitalized leases	14.7	13.5
Less accumulated amortization	(49.8)	(47.8)
Total Leased	118.2	99.9
Property and Equipment—net	410.4	358.8
Other Assets:		
Cost of investments in acquired businesses in excess of net assets at acquisition	8.8	8.8
Other	23.0	23.5
Total Other Assets	31.8	32.3
Total Assets	$1,283.2	$1,214.6
Liabilities and Shareholder's Equity		
Current Liabilities:		
Short-term debt and current maturities of long-term debt	$ 33.7	$ 28.2
Accounts payable and other liabilities	473.0	444.4
Federal taxes on income:		
Current—payable to Household	14.0	10.1
Deferred	8.1	10.4
Total Current Liabilities	528.8	493.1
Capitalized Lease Obligations	129.1	109.8
Long-Term Debt	123.3	131.1
Taxes on Income—Deferred	11.6	9.2
Shareholder's Equity:		
Common stock	17.9	17.9
Additional paid-in capital	60.9	60.9
Retained earnings	411.6	392.6
Total Shareholder's Equity	490.4	471.4
Total Liabilities and Shareholder's Equity	$1,283.2	$1,214.6

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Notes to Financial Statements

1. Revolving Credit Account Agreement

The Company has an ongoing program of selling an undivided interest in revolving credit accounts to Household. A portion of the total receivables sold is withheld by Household. Discounts charged and amounts withheld (see Note 2 to Financial Statements of Household) are included in interest expense and notes and accounts receivable, respectively.

2. Short-Term Debt

Short-term debt data were as follows (millions of dollars):

	Outstanding at December 31			
	Balance of Borrowings		Weighted Average Interest Rates	
	1980	1979	**1980**	1979
Commercial paper	**$ 4.4**		**14.7%**	
Master notes	**15.0**	$15.0	**16.5**	12.8%
Total	**$19.4**	$15.0	**16.1%**	12.8%

	Average Borrowings		
	1980	1979	1978
Commercial paper	**$103.8**	$39.2	$30.8
Master notes	**15.0**	15.0	14.9
Advances from Household	**3.4**	9.2	2.6
Total	**$122.2**	$63.4	$48.3

The Company issues commercial paper and periodically obtains advances from Household. Interest paid to Household totaled $.5, $1.2, and $.2 million during 1980, 1979, and 1978, respectively. The maximum aggregate short-term debt outstanding at the end of any month during 1980 and 1979 was $165.1 and $121.6 million, respectively (including $1.1 and $55.1 million, respectively, of advances from Household). Weighted average interest rates on average aggregate short-term debt outstanding during 1980, 1979, and 1978 were 13.7%, 11.6%, and 8.2%, respectively.

Lines of credit are maintained with various banks and at December 31, 1980 amounted to $171.7 million which was unused. To support the availability of these lines, the Company pays commitment fees, maintains compensating balances, or utilizes a combination of both arrangements. Borrowings under these lines require a surcharge which varies with the prime rate. At December 31, 1980 and 1979, compensating balance requirements totaled $4.8 and $6.7 million, respectively.

3. Leases

The Company leases certain of its stores, distribution facilities, vehicles, and equipment for initial periods up to 30 years with various renewal options. The majority of the Company's leases are noncancelable operating leases. Rent commitments at December 31, 1980 for these leases were as follows: 1981, $63.2 million; 1982, $59.4 million; 1983, $55.2 million; 1984, $51.6 million; 1985, $48.4 million; and thereafter, $460.2 million. The total of minimum rentals to be received in the future under noncancelable subleases of operating leases is $61.1 million. Annual rental expenses for all leases other than capital leases were as follows (millions of dollars):

	1980	1979	1978
Minimum rents	**$ 73.1**	$ 64.5	$ 56.9
Contingent rents	**12.8**	13.6	8.9
Sublease rents received	**(11.4)**	(14.1)	(12.3)
Total	**$ 74.5**	$ 64.0	$ 53.5

Capital lease obligations vary in amounts up to $4.5 million with interest rates from 4.5% to 14%. Future minimum lease commitments under capital leases together with the present value of the net minimum lease payments as of December 31, 1980 were (millions of dollars):

1981	$ 20.3
1982	18.7
1983	17.9
1984	17.4
1985	16.7
Thereafter	215.7
Total minimum lease commitments	306.7
Less amount representing estimated executory costs (taxes, maintenance, and insurance) included in commitments	14.1
Net minimum lease commitments	292.6
Less amount representing interest	157.0
Present value of net minimum lease commitments	135.6
Less current portion	6.5
Long-term portion	$129.1

The total of minimum sublease rentals to be received in the future under noncancelable subleases of capital leases was $7.9 million. Capital leases of certain stores require additional contingent rentals based on a percentage of sales over a specified amount. These amounts were $2.7, $2.9, and $2.3 million in 1980, 1979, and 1978, respectively.

4. Long-Term Debt

Long-term debt at December 31, 1980 and 1979 included both term and mortgage notes and is summarized as follows (millions of dollars):

	1980	1979
6.65% notes, due through 1989	**$ 19.0**	$ 21.0
7¾% notes, due through 1993	**40.0**	42.0
8½% notes, due 1981 through 1997	**50.0**	50.0
Other notes, payable at rates ranging from 5½% to 9⅝%, due at various times through 2005	**22.1**	25.2
Total	**131.1**	138.2
Less current portion	**7.8**	7.1
Long-term portion	**$123.3**	$131.1

Certain note agreements require minimum working capital levels and limit the amount of retained earnings available for cash dividends at December 31, 1980 to approximately $178 million. Approximate annual maturities were as follows: 1981, $7.8 million; 1982, $7.8 million; 1983, $7.8 million; 1984, $7.5 million; 1985, $8.6 million; and thereafter, $91.6 million.

5. Taxes on Income

The provisions for taxes on income resulted in effective tax rates which differed from the statutory Federal income tax rates as follows:

	1980	1979	1978
Statutory Federal income tax rate	**46.0%**	46.0%	48.0%
Increase (decrease) in rate resulting from:			
Investment tax credits	**(9.8)**	(5.4)	(3.4)
State and local income taxes net of Federal tax benefit	**3.1**	3.5	3.3
Other—net	**(0.1)**		(0.1)
Effective tax rate	**39.2%**	44.1%	47.8%

Deferred income tax provisions (credits) were as follows (millions of dollars):

	1980	1979	1978
Deferred gross margins on sales	**$ 0.6**	$ 0.5	$ 1.0
Excess of tax over book depreciation	**2.7**	2.0	1.2
Provision for doubtful accounts over amounts deductible for tax purposes	**(1.4)**	(0.2)	
Other—net	**(1.5)**		(1.3)
Total	**$ 0.4**	$ 2.3	$ 0.9

6. Retirement Plans

Retirement plan expenses were $29, $23.4, and $18.7 million for 1980, 1979, and 1978, respectively. A comparison of accumulated plan benefits and plan net assets at the date of the most recent actuarial valuation is presented below (millions of dollars):

January 1	**1980**	1979
Actuarial present value of accumulated plan benefits:		
Vested	**$61.6**	$47.8
Nonvested	**6.2**	5.2
Total	**$67.8**	$53.0
Net assets available for benefits	**$67.3**	$53.5

7. Other Information

Information by major industry segment is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 63 through 65. Supplementary balance sheet information is as follows (millions of dollars):

	1980	1979
Trade accounts payable	**$298.9**	$298.3
Other accounts payable	**76.0**	51.0
Dividends payable to Household	**6.0**	6.0
Accrued payroll	**52.3**	47.6
Other accruals	**39.8**	41.5

Advertising costs were $77.2, $64.2, and $54.9 million for the years ended December 31, 1980, 1979, and 1978, respectively.

Statements of Income

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Net Sales and Revenues	**$265.1**	$245.6	$232.2
Costs and Expenses			
Manufacturing	**195.8**	177.6	162.1
Selling and administrative	**36.4**	31.7	28.8
Interest	**2.2**	1.4	0.5
Total Costs and Expenses	**234.4**	210.7	191.4
Income Before Unrealized Foreign Exchange Gains (Losses) and Provision for Taxes on Income	**30.7**	34.9	40.8
Unrealized Foreign Exchange Gains (Losses)	**(0.6)**	0.1	
Income Before Provision for Taxes on Income	**30.1**	35.0	40.8
Provision for Taxes on Income			
Current	**13.0**	16.0	19.7
Deferred	**0.1**	(0.7)	(0.1)
Total Provision for Taxes on Income	**13.1**	15.3	19.6
Net Income	**$ 17.0**	$ 19.7	$ 21.2

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Resources Provided			
Operations:			
Net Income	**$ 17.0**	$ 19.7	$ 21.2
Nonfund transactions—depreciation, etc.	**7.1**	7.6	5.7
Total Resources Provided by Operations	**24.1**	27.3	26.9
Long-term debt issued	**9.5**		
Other—net	**(2.5)**	0.1	0.1
Total Resources Provided	**$ 31.1**	$ 27.4	$ 27.0
Resources Applied			
Additions to property and equipment	**$ 14.4**	$ 8.4	$ 6.9
Dividends to Household	**10.0**	8.0	8.0
Working capital—increase	**6.7**	11.0	12.1
Total Resources Applied	**$ 31.1**	$ 27.4	$ 27.0
Changes in Components of Working Capital			
Current assets—increase	**$ 2.1**	$ 22.1	$ 12.0
Current liabilities—(increase) decrease	**4.6**	(11.1)	0.1
Working Capital—Increase	**$ 6.7**	$ 11.0	$ 12.1

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements. Information regarding the change to the LIFO method for valuing inventories is summarized on page 40.

Balance Sheets

All amounts are stated in millions of dollars.

December 31	1980	1979
Assets		
Current Assets:		
Cash	$ 1.7	$ 3.2
Short-term investments	13.6	6.1
Accounts receivable (less allowance for doubtful accounts, 1980 and 1979—$.9)	44.4	39.8
Inventories (FIFO value—1980, $81.6; 1979, $82.9):		
Raw materials	9.4	10.1
Work in process	32.8	36.3
Finished goods	29.2	31.8
Total inventories	71.4	78.2
Other current assets	2.1	3.8
Total Current Assets	133.2	131.1
Property and Equipment:		
Land, buildings, and improvements	32.4	27.2
Machinery and equipment	55.7	48.9
Less accumulated depreciation and amortization	(50.7)	(46.0)
Property and Equipment—net	37.4	30.1
Other Assets:		
Cost of investments in acquired businesses in excess of net assets at acquisition	7.9	7.9
Other	3.9	1.4
Total Other Assets	11.8	9.3
Total Assets	$182.4	$170.5
Liabilities and Shareholder's Equity		
Current Liabilities:		
Short-term debt		$ 6.0
Accounts payable	$ 15.9	15.2
Accrued salaries and wages	3.3	3.1
Federal taxes on income—payable to Household	1.6	
Other taxes on income	6.5	7.2
Other current liabilities	5.9	6.3
Total Current Liabilities	33.2	37.8
Long-Term Debt	9.5	
Shareholder's Equity:		
Common stock	3.5	3.5
Additional paid-in capital	6.2	6.2
Retained earnings	130.0	123.0
Total Shareholder's Equity	139.7	132.7
Total Liabilities and Shareholder's Equity	$182.4	$170.5

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Notes to Financial Statements

1. Short-Term Debt

Short-term debt at December 31, 1979 consisted primarily of notes payable within 90 days with a weighted average interest rate of 15.3%. Lines of credit are maintained with various banks and at December 31, 1980 amounted to $16 million. To support the availability of these lines, the Company pays commitment fees, maintains compensating balances, or utilizes a combination of both arrangements.

2. Long-Term Debt

The Company's long-term debt at December 31, 1980 is due in 1983 and consisted of a $6.5 million industrial revenue bond with a 6.5% interest rate and a $3 million industrial revenue bond with a floating interest rate of 65% of the prime rate. The debt is collateralized by property and equipment acquired with the bond proceeds.

3. Taxes on Income

The provisions for taxes on income resulted in effective tax rates which differed from the statutory Federal income tax rates as follows:

	1980	1979	1978
Statutory Federal income tax rate	**46.0%**	46.0%	48.0%
Increase (decrease) in rate resulting from:			
State and local income taxes net of Federal tax benefit	**1.7**	2.6	2.5
United Kingdom stock relief and tax treaty	**(1.3)**	(1.9)	
Investment tax credits	**(1.9)**	(1.1)	(1.0)
Unrealized foreign exchange (gains) losses	**0.8**	(0.2)	
Other—net	**(1.8)**	(1.7)	(1.4)
Effective tax rate	**43.5%**	43.7%	48.1%

For the years ended December 31, 1980, 1979, and 1978, taxable income from foreign operations was $12.4, $10.7, and $8.4 million, respectively, and foreign taxes on income were $5.7, $3.9, and $3.7 million, respectively. Provision for taxes on income has not been made on approximately $28.7 million of undistributed earnings of foreign subsidiaries and a domestic international sales corporation at December 31, 1980 as it is management's intention to reinvest such earnings indefinitely.

4. Retirement Plans

Retirement plan expenses were $2.4, $2.1, and $1.8 million for 1980, 1979, and 1978, respectively. A comparison of accumulated plan benefits and plan net assets for the Company's retirement plans at the date of the most recent actuarial valuation is presented below (millions of dollars):

July 1	1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	**$20.7**	$17.9
Nonvested	**2.2**	2.0
Total	**$22.9**	$19.9
Net assets available for benefits	**$18.2**	$14.7

5. Foreign Operations

Selected data applicable to foreign subsidiaries for the years ended December 31, 1980, 1979, and 1978 were as follows:

	Percent of Consolidated Total		
	1980	1979	1978
Assets	**23%**	21%	21%
Liabilities	**37**	42	48
Net income	**39**	34	22

6. Lease Commitments

The Company leases buildings, machinery, and equipment for initial periods of up to 20 years with various renewal options. Rent expenses were $4.8, $2.7, and $2.1 million for the years ended December 31, 1980, 1979, and 1978, respectively. Rent commitments for noncancelable operating leases are insignificant.

7. Other Information

Information by major industry segment and geographic area is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 63 through 65. Supplementary income statement information is as follows (millions of dollars):

	1980	1979	1978
Maintenance and repairs	**$6.3**	$5.8	$4.8
Advertising costs	**6.4**	5.5	5.0
Research and development	**2.6**	1.8	1.9

Statements of Income

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Revenues	**$366.6**	$310.8	$261.8
Expenses			
Direct operating	**166.5**	145.9	131.4
Depreciation of revenue-earning assets	**78.6**	65.6	43.1
Selling and administrative	**51.3**	39.8	37.7
Interest	**40.4**	28.4	20.5
Total Expenses	**336.8**	279.7	232.7
Income Before Provision for Taxes on Income	**29.8**	31.1	29.1
Provision for Taxes on Income			
Current	**(2.9)**	(1.7)	(2.2)
Deferred	**14.8**	15.2	15.2
Total Provision for Taxes on Income	**11.9**	13.5	13.0
Net Income	**$ 17.9**	$ 17.6	$ 16.1

Statements of Changes in Financial Position

All amounts are stated in millions of dollars.

Year Ended December 31	1980	1979	1978
Resources Provided			
Operations:			
Net income	**$ 17.9**	$ 17.6	$ 16.1
Nonfund transactions:			
Depreciation and amortization	**83.2**	69.4	47.0
Deferred taxes on income	**14.8**	15.2	15.2
Trade receivables—net (increase)	**(7.0)**	(6.6)	(9.5)
Other assets and prepaid expenses—net (increase)	**(3.9)**	(1.5)	(1.5)
Accounts payable and accrued liabilities—net increase	**11.1**	8.8	13.1
Total Resources Provided by Operations	**116.1**	102.9	80.4
Proceeds from disposal of revenue-earnings assets	**201.8**	156.2	150.9
Vehicle obligations and other debt—net increase	**147.7**	32.6	35.9
Total Resources Provided	**$465.6**	$291.7	$267.2
Resources Applied			
Purchase of revenue-earning assets	**$420.3**	$251.0	$253.7
Investment in direct financing leases—net increase	**9.7**	9.1	3.8
Additions to property and equipment	**23.0**	15.7	8.8
Dividends to Household	**10.0**	14.0	
Advances to Household	**2.1**	1.5	1.9
Other—net	**(0.8)**	(0.3)	(0.5)
Cash—increase (decrease)	**1.3**	0.7	(0.5)
Total Resources Applied	**$465.6**	$291.7	$267.2

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these statements.

Balance Sheets

All amounts are stated in millions of dollars.

December 31	1980	1979
Assets		
Cash	$ 3.2	$ 1.9
Trade Receivables (less allowance for doubtful accounts, 1980—$5.4; 1979—$3.5)	46.3	39.3
Other Assets and Prepaid Expenses	11.8	7.9
Investment in Direct Financing Leases (less unearned income, 1980—$13.6; 1979—$10.7)	82.3	72.6
Revenue-Earning Assets:		
Rental Vehicles	348.0	253.7
Lease Vehicles	175.0	115.5
Total	523.0	369.2
Less accumulated depreciation	(90.5)	(76.6)
Revenue-Earning Assets—net	432.5	292.6
Property and Equipment:		
Land	8.9	7.4
Buildings on owned and leased land	32.9	23.6
Furniture, equipment, and leasehold improvements	32.2	23.2
Total	74.0	54.2
Less accumulated depreciation and amortization	(16.6)	(14.4)
Property and Equipment—net	57.4	39.8
Receivable from Household	14.1	12.0
Cost of Investments in Acquired Businesses in Excess of Net Assets at Acquisition	11.8	11.8
Total Assets	$659.4	$477.9
Liabilities and Shareholder's Equity		
Accounts Payable	$ 22.2	$ 19.3
Accrued Insurance	24.9	20.6
Other Accrued Liabilities	16.2	12.3
Vehicle Obligations and Other Debt	434.7	287.0
Taxes on Income — Deferred	67.9	53.1
Total Liabilities	565.9	392.3
Shareholder's Equity:		
Common stock	10.0	10.0
Additional paid-in capital	20.4	20.4
Retained earnings	63.1	55.2
Total Shareholder's Equity	93.5	85.6
Total Liabilities and Shareholder's Equity	$659.4	$477.9

The accompanying Summary of Significant Accounting Policies and Notes to Financial Statements are an integral part of these Balance Sheets.

Notes to Financial Statements

1. Direct Financing Leases and Revenue-Earning Assets

Revenue-earning assets consist of vehicles on operating leases and held for lease. Generally, rentals vary from a day to a month and leases vary from one to six years. Depreciation is computed on the straight-line method at rates intended to measure the reduction in market value over the periods vehicles are normally held. Because of the inability to accurately forecast future market values, gains or losses are realized at dates of vehicle disposal and included in the final determination of depreciation. These separately determined items, estimated depreciation provision and ultimate gain or loss on disposal, are considered by management to be inseparable elements of the total depreciation charges. The net gain on disposal of revenue-earning assets included in depreciation expense for 1980, 1979, and 1978 was $19.2, $15.1, and $18.7 million, respectively.

Investment in direct financing leases is reported net of estimated executory costs and related profits thereon which are insignificant. The amount of unearned income which was included in 1980, 1979, and 1978 income to offset initial direct costs was also insignificant.

Investment in direct financing leases and revenue-earning assets included cars and trucks leased to the Finance, Merchandising, and Manufacturing Businesses of approximately $17 and $15 million at December 31, 1980 and 1979, respectively. Related revenues for 1980, 1979, and 1978 were approximately $9, $7, and $5 million, respectively. At December 31, 1980 future minimum payments to be received under noncancelable leases, classified by year of maturity, were as follows (millions of dollars):

	Direct Financing Leases	Operating Leases
1981	$53.8	$56.7
1982	34.0	41.6
1983	4.6	13.8
1984	2.2	5.5
1985	1.4	2.1
Thereafter	1.4	0.5

These amounts do not include contingent payments which may be received under vehicle leases on the basis of mileage in excess of stipulated minimums. During 1980, 1979, and 1978, such contingent payments amounted to $17.7, $15, and $12.8 million, respectively. Revenues from rental vehicles for the same periods were $265.1, $231.7, and $196.8 million, respectively.

2. Vehicle Obligations and Other Debt

Vehicle obligations and other debt outstanding at December 31, 1980 and 1979 were as follows (millions of dollars):

	1980	1979
Vehicle obligations	**$188.1**	$137.0
Commercial paper	**245.3**	148.5
Other	**1.3**	1.5
Total	**$434.7**	$287.0

Vehicle obligations consist of notes payable to banks and credit companies under financing agreements and accounts payable for vehicles. Certain of the notes payable are collateralized by leases, the underlying lease vehicles, and rental vehicles. The remaining notes require that Rental and Leasing own unencumbered vehicles sufficient to satisfy any unsecured debt. Weighted average interest rates on vehicle obligations and other debt outstanding at December 31, 1980 and 1979 were 16.6% and 12%, respectively. The maximum amounts outstanding at the end of any month were $434.7 million during 1980 and $289.6 million during 1979. The average aggregate amounts outstanding during 1980, 1979, and 1978 were $340.5, $275, and $233.8 million, respectively, and the related weighted average interest rates were 12.5%, 10.7%, and 9%, respectively. Weighted average interest rates include costs of maintaining lines of credit and are determined based on monthly outstanding principal amounts excluding accounts payable for vehicles.

At December 31, 1980, unused credit lines were $290.5 million including $248.3 million supporting outstanding commercial paper on which fees are paid.

Approximately $.9 and $.5 million of interest was capitalized in 1980 and 1979, respectively, relating to construction of a new headquarters building.

Interest expense for 1978 on notes payable to an insurance subsidiary of Household was $1.2 million.

3. Taxes on Income

The provisions for taxes on income resulted in effective tax rates which differed from the statutory Federal income tax rates as follows:

	1980	1979	1978
Statutory Federal income tax rate	**46.0%**	46.0%	48.0%
Increase (decrease) in rate resulting from:			
Investment tax credits	**(7.7)**	(4.8)	(6.5)
State and local income taxes net of Federal tax benefit	**3.4**	3.5	3.4
Other—net	**(1.8)**	(1.3)	(0.2)
Effective tax rate	**39.9%**	43.4%	44.7%

Deferred income taxes on timing differences result primarily from the use of accelerated depreciation. The tax effects of timing differences in excess of the Company's pretax financial income are recorded by Household.

The receivable from Household of $14.1 and $12 million at December 31, 1980 and 1979, respectively, represents Federal income tax benefits arising primarily from investment tax credits, net of estimated recapture.

4. Lease Commitments

The Company leases rental stations, service facilities, and administrative offices for initial periods up to 25 years with various renewal options. Rent expenses, including payments on vehicles leased from others, for 1980, 1979, and 1978 were $31.6, $29.1, and $29.9 million, respectively. Such amounts include contingent rentals (based on revenues) for car rental station leases of $11.7, $11.3, and $11.1 million, respectively. Rent commitments for noncancelable leases at December 31, 1980 were as follows (millions of dollars):

Year Ended December 31	
1981	$13.3
1982	13.1
1983	11.0
1984	7.9
1985	5.4
Thereafter	9.3

5. Retirement Plans

Retirement plan expenses were $1.1, $.8, and $.8 million for 1980, 1979, and 1978, respectively. A comparison of accumulated plan benefits and plan net assets at the date of the most recent actuarial valuation is presented below (millions of dollars):

January 1	1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	$2.6	$1.7
Nonvested	0.6	0.7
Total	$3.2	$2.4
Net assets available for benefits	$4.6	$3.5

6. Other Information

Information by major industry segment is included on pages 38 and 39. Supplementary information on the impact of inflation on accounting data is included on pages 63 through 65. Supplementary income statement information is as follows (millions of dollars):

	1980	1979	1978
Maintenance and repairs of revenue-earning assets and property and equipment	$25.1	$22.8	$18.5
Depreciation and amortization—property and equipment	4.6	3.8	3.9
Vehicles leased from others	3.5	4.5	8.8
Advertising costs	5.0	3.5	3.6

Management's Report and Auditors' Opinion

To the Shareholders of Household Finance Corporation: February 11, 1981

Management is responsible for the preparation, integrity, and objectivity of the Company's financial statements. The financial statements are prepared from the Company's books and records of transactions in the ordinary course of business and, as appropriate, include amounts that are based upon management's best estimates and judgments, all in conformity with generally accepted accounting principles appropriate in the circumstances. Financial information included elsewhere in the Annual Report is consistent with that in the financial statements.

The Company maintains systems of internal accounting controls and procedures which management believes provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. Internal auditors evaluate the adequacy of and investigate the adherence to these controls and procedures. Our independent auditors, Deloitte Haskins & Sells, also study and evaluate the Company's accounting systems and related controls and perform tests of transactions and account balances in accordance with generally accepted auditing standards. This permits them, as independent auditors, to render an opinion as to the fairness of the financial statements prepared by the Company.

The Audit Committee of the Board of Directors is composed solely of outside directors. It meets periodically with the independent auditors, the internal auditors, and management to discuss auditing and financial reporting matters. Both the independent auditors and the internal auditors have unrestricted access to the Audit Committee without the presence of Company management for the purpose of discussing the results of their audit work and their opinions as to the adequacy of internal accounting controls and the quality of financial reporting.

Management has long recognized its responsibility for conducting the Company's affairs in a manner which is responsive to the interests of employees, shareholders, investors, and society in general. This responsibility is reflected in our statement of policy on ethical standards which provides that the Company will fully comply with the laws, rules, and regulations of every community in which it operates and adhere to the highest ethical standards and the officers, employees, and agents of the Company are expected and directed to manage the business of the Company with complete honesty, candor, and integrity.

G. R. Ellis
Chairman of the Board
and Chief Executive Officer

D. C. Clark
President

J. B. Spring
Senior Vice President
and Chief Financial Officer

To the Shareholders of Household Finance Corporation: February 11, 1981

We have examined the balance sheets of Household Finance Corporation and consolidated subsidiaries as of December 31, 1980 and 1979 and the related statements of income, changes in shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1980. We have made similar examinations of the financial statements of the Company's nonconsolidated merchandising, manufacturing, and rental and leasing subsidiaries. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements of Household Finance Corporation and consolidated subsidiaries and of Household's nonconsolidated merchandising, manufacturing, and rental and leasing subsidiaries present fairly the financial position of the companies at December 31, 1980 and 1979 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied during the period except, as to the financial statements of the Company and of its merchandising and manufacturing subsidiaries, for the effects of the change, with which we concur, in 1979 in the method of accounting for domestic inventories as described in the Summary of Significant Accounting Policies.

Deloitte Haskins & Sells

200 East Randolph Drive
Chicago, Illinois 60601

Quarterly Financial Data (Unaudited)

Selected 1980 and 1979 quarterly financial data are as follows (millions of dollars except per share data):

	1980—Three Months Ended				1979—Three Months Ended			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Finance Business:								
Revenues	$235.8	$232.2	$244.5	$247.1	$228.8	$211.9	$202.7	$199.2
Interest expense	92.8	75.7	90.1	93.5	88.6	63.3	54.5	51.6
Provision for credit losses	25.5	18.2	14.5	16.4	30.5	21.3	18.3	17.9
Income from:								
Finance Business	4.2	22.8	43.3	19.6	11.0	26.8	22.3	30.3
Merchandising Business	27.5	4.1	6.6	4.8	24.1	11.1	13.6	8.3
Manufacturing Business	3.5	2.4	4.6	6.5	3.9	3.0	6.3	6.5
Transportation Business:								
Rental and Leasing	3.8	7.7	3.8	2.6	2.6	5.8	5.6	3.6
Air Travel	0.2	2.5	0.2	(1.4)				
Expense from Corporate Operations	(6.7)	(7.4)	(7.1)	(7.1)	(5.9)	(5.9)	(5.8)	(6.0)
Net Income	$ 32.5	$ 32.1	$ 51.4	$ 25.0	$ 35.7	$ 40.8	$ 42.0	$ 42.7
Per Share: Primary	$ .66	$ .65	$ 1.07	$ .50	$ .73	$ .84	$ .87	$ .89
Fully diluted	.63	.63	1.00	.49	.70	.80	.82	.83

The Company's businesses are subject to seasonal factors and, accordingly, the quarterly results of operations are not necessarily comparable nor indicative of results for the entire year.

Income from Finance Business decreased in the fourth quarter of 1980 compared with 1979 principally because of higher unrealized foreign exchange losses and interest costs.

The fourth quarter increase in Merchandising net income primarily was due to strong sales at T.G.&Y. and Vons. These sales caused certain merchandise inventory levels to be lower at December 31, 1980 than at the end of 1979. The resulting liquidation of prior year LIFO valued inventories improved fourth quarter income on an aftertax basis by approximately $3.2 million.

The fourth quarter 1980 income from Manufacturing Business decreased as compared to the fourth quarter 1979. Increased sales and revenues in the fourth quarter and for the year 1980 were adversely affected by escalating manufacturing costs, competitive pricing, and production cutbacks.

Income from Rental and Leasing increased in the fourth quarter of 1980 compared with 1979 primarily as a result of higher revenues and a stronger market for the sale of used vehicles.

Income from Finance Business and net income can fluctuate widely because of the inclusion in the Statements of Income of unrealized foreign exchange gains and losses that result principally from changes in the Canadian foreign exchange rate. Had the unrealized foreign exchange gains and losses, less related tax effects, been excluded from the determination of net income, net income and related earnings per common share calculated on a fully diluted basis by quarter for 1980 and 1979 would have been as follows (millions of dollars except per share data):

	1980—Three Months Ended				1979—Three Months Ended			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Net income	$40.4	$37.2	$36.6	$32.3	$38.9	$36.5	$44.0	$36.4
Per common share	.79	.73	.71	.63	.76	.71	.86	.71

Supplementary Information on the Impact of Inflation on Accounting Data (Unaudited)

Introduction

In recognition of the increasing significance of inflation, the Financial Accounting Standards Board ("FASB") requires large businesses to experiment with measuring and reporting on the impact of inflation and to include selected disclosures with annual financial statements. The required disclosures include presentation of three basic types of accounting data—historical cost, constant dollar, and current cost. Historical cost is the presentation which shareholders traditionally receive. It is these amounts that are presented in the Corporation's basic financial statements and elsewhere throughout the Annual Report. Constant dollar is a concept used to adjust historical currency transactions into units of the same (constant) general purchasing power by using a general inflation index—the CPI-U (Consumer Price Index for All Urban Consumers). Current cost identifies certain assets and expenses associated with use or sale of products and services in terms of what their current cost would have been when they were used or sold rather than what their historical cost actually was.

The required disclosures also distinguish between monetary and nonmonetary items. Monetary items are assets and liabilities which do not change in price and will be converted into a fixed amount of dollars. A net monetary asset position will cause a loss in purchasing power of the dollar in an inflationary period whereas a net monetary liability position will result in a gain in purchasing power. Nonmonetary items are assets and liabilities which do have occasion to change in price and which may or may not change at the same rate as general inflation. The FASB also requires that the increases in current costs based on specific prices of inventories, revenue-earning assets, property and equipment be compared with amounts based on general price level changes using the CPI-U to arrive at a theoretical holding gain or loss for such assets.

The reader is cautioned to exercise due care in use of the following information since it not only is experimental in nature but is based on simplified concepts, shortcut calculations, subjectivity, and abbreviated disclosure.

Summary Income Data

(All amounts other than per share data are stated in millions. Constant and current basis data are in average 1980 dollars.)

Excluding Purchasing Power Gain (Loss) on Net Monetary Items							Including Purchasing Power Gain (Loss) on Net Monetary Items	
Constant Basis		Current Basis			Historical Basis		Current Basis	
1980	1979	**1980**	1979		**1980**	1979	**1980**	1979
$ 86.4	$ 99.6	**$ 88.8**	$101.8	Finance	**$ 89.9**	$ 90.4	**$ 54.7**	$ 61.4
(11.3)	(7.9)	**23.8**	37.9	Merchandising	**43.0**	57.1	**96.0**	109.1
12.2	15.1	**11.7**	14.5	Manufacturing	**17.0**	19.7	**9.8**	12.1
				Transportation:				
(23.9)	(8.3)	**(6.9)**	5.4	Rental and Leasing	**17.9**	17.6	**27.7**	35.9
(2.5)		**(1.0)**		Air Travel	**1.5**		**7.5**	
(28.3)	(26.8)	**(28.3)**	(26.8)	Corporate	**(28.3)**	(23.6)	**(28.3)**	(26.8)
$ 32.6	$ 71.7	**$ 88.1**	$132.8	Total Income	**$141.0**	$161.2	**$167.4**	$191.7
				Per Common Share:				
$ 0.54	$ 1.39	**$ 1.74**	$ 2.72	Primary	**$ 2.88**	$ 3.33	**$ 3.45**	$ 3.99
$ 0.54	$ 1.39	**$ 1.72**	$ 2.59	Fully diluted	**$ 2.75**	$ 3.15	**$ 3.27**	$ 3.74

The constant dollar information shown above was prepared using the CPI-U inflation index as required by the FASB. Because inflation measured by the CPI-U includes items such as housing and energy costs which do not necessarily impact assets purchased by Household's businesses, the result does not portray accurately how inflation has affected Household. For example, the Merchandising Business uses the U.S. Bureau of Labor Statistics ("BLS") Department Store Inventory Price Indexes to value a substantial portion of its LIFO inventories. Management believes the BLS indices and other indices used to value inventory for LIFO purposes during the past two years, which indicate an inflation rate of approximately half that of the general inflation rate as measured by the CPI-U, reasonably presents the impact of inflation on its cost of goods sold. In the Rental and Leasing Business, vehicles traditionally have been purchased late in the year. To arbitrarily assign a general inflation rate to these vehicle purchases which reflects average prices is inappropriate. These matters cause constant basis income data to be much lower than current basis for our Merchandising and Rental and Leasing Businesses, which we consider misleading. Accordingly, management has concluded that the constant dollar presentation does not portray accurately the impact of inflation on Household's businesses.

The current basis presentation does not, as it relates to Household's businesses, have the same deficiencies as discussed above regarding the constant basis. Both methods, however, are deficient in that they exclude purchasing power gains and losses. The FASB intentionally elected to omit purchasing power gains and losses on holding net monetary assets during the year rather than to combine it with earnings. This position was adopted because of the belief that the gain or loss could only be understood in the full context of all components of earnings. In the spirit of experimentation as encouraged by the FASB, the current cost basis earnings adjusted for the purchasing power gain or loss is presented in the above right hand column. Because of the diversity of operations and businesses and because of the complex relationship of Household's monetary and nonmonetary positions, management believes that this presentation of inflationary data is the most meaningful. It demonstrates that Household's resource allocation has positioned the Company to minimize the impact of inflation on shareholders' investment.

Data by Business

(All amounts are stated in millions and constant and current basis data are in average 1980 dollars except for the current cost of inventory, revenue-earning assets, and property and equipment which are in year-end 1980 dollars)

Statements of Income Adjusted for Changing Prices
For The Year Ended December 31, 1980

	Historical Basis	Constant Basis	Current Basis	Historical Basis	Constant Basis	Current Basis
		Finance			Rental and Leasing	
Revenues	$ 959.6	$ 959.6	$ 959.6	$366.6	$366.6	$366.6
Operating expenses, etc.	450.2	450.2	450.2	213.2	213.2	213.2
Depreciation	7.7	11.2	8.8	83.2	125.0	108.0
Interest	352.1	352.1	352.1	40.4	40.4	40.4
Unrealized foreign exchange losses	7.7	7.7	7.7			
Provision for taxes on income	52.0	52.0	52.0	11.9	11.9	11.9
Total expenses	869.7	873.2	870.8	348.7	390.5	373.5
Income	$ 89.9	$ 86.4	$ 88.8	$ 17.9	$ (23.9)	$ (6.9)
Property and equipment			$ 80.1			$ 72.6
Revenue-earning assets						472.1
		Merchandising			Manufacturing	
Net sales and revenues	$4,462.4	$4,462.4	$4,462.4	$265.1	$265.1	$265.1
Cost of goods sold, buying, and occupancy	3,558.1	3,599.4	3,564.5	189.0	191.5	191.5
Depreciation and amortization	39.0	52.0	51.8	7.1	9.4	9.9
Selling and administrative	748.5	748.5	748.5	36.1	36.1	36.1
Interest	46.1	46.1	46.1	2.2	2.2	2.2
Unrealized foreign exchange losses				0.6	0.6	0.6
Provision for taxes on income	27.7	27.7	27.7	13.1	13.1	13.1
Total expenses	4,419.4	4,473.7	4,438.6	248.1	252.9	253.4
Income	$ 43.0	$ (11.3)	$ 23.8	$ 17.0	$ 12.2	$ 11.7
Property and equipment			$ 594.8			$ 66.5
Inventories			759.4			82.1

	Finance		Merchandising		Manufacturing		Rental and Leasing	
	1980	1979	**1980**	1979	**1980**	1979	**1980**	1979
Purchasing power gain (loss) on net monetary items held during the year	**$ (34.1)**	$ (40.4)	**$ 72.2**	$ 71.2	**$ (1.9)**	$ (2.4)	**$ 34.6**	$ 30.5
Increase in current cost of inventories, revenue-earning assets, and property and equipment	**$ 8.1**	$ 5.7	**$ 98.3**	$ 97.5	**$ 12.9**	$ 20.1	**$ 47.0**	$ 24.9
Increase in general price level	**8.9**	9.4	**154.5**	154.2	**17.1**	17.3	**51.3**	46.5
Increase in current cost over (under) increase in general price level	**$ (0.8)**	$ (3.7)	**$ (56.2)**	$ (56.7)	**$ (4.2)**	$ 2.8	**$ (4.3)**	$ (21.6)
Net assets at year end:								
Historical basis	**$1,293.4***	$1,232.5*	**$490.4**	$471.4	**$139.7**	$132.7	**$ 93.5**	$ 85.6
Constant basis	**1,606.9***	1,704.2*	**719.7**	690.4	**171.5**	169.3	**139.0**	136.6
Current basis	**1,614.7***	1,710.5*	**728.5**	709.8	**171.7**	178.0	**141.0**	119.3

*Represents net assets of all businesses.

Management Analysis

Corporate

Household's cash dividends have substantially kept pace with inflation. The compounded CPI-U annual inflation rate over the past five years has averaged 8.9% while dividends increased at an 8.4% rate. Household's 6.9% compounded growth rate for shareholders' equity would have been 7.6% if the Company had not adopted LIFO in 1979. Both the dividend and shareholders' book values, when adjusted for general inflation, show adverse trends in 1980. The average CPI-U increased 6.5% in 1977, 7.7% in 1978, 11.3% in 1979, and 13.5% in 1980. The abnormally high inflation rate as measured by the CPI-U coupled with high interest rates and difficult economic conditions experienced in 1980 are largely responsible for the adverse trend in Household's CPI-U adjusted data for 1980. Management believes, however, that the general inflation rate as measured by the CPI-U for 1979 and 1980 are in excess of the actual inflation rate being experienced by Household's businesses.

Finance

Substantially all of Finance Division's assets and liabilities are of a monetary nature with the exception of its investments in nonconsolidated subsidiaries and its relatively small amount of physical assets. Since these monetary assets exceed monetary liabilities, the net asset position resulted in a loss of purchasing power in 1980 and 1979 of over $30 million. Because of its reliance on borrowed funds to support outstanding receivables, the Finance Business is vulnerable to the adverse impact of high interest rates which normally accompany periods of high inflation. This dependence, coupled with the fact that most loans are subject to statutory interest rate ceilings, limits the ability of the Division to transfer the effect of inflation to its customers on a timely basis.

Merchandising

The Merchandising Business adopted the last-in, first-out ("LIFO") method of valuing inventories in 1979 to account for the effects of inflation in the historical financial statements by more closely matching current inventory purchase costs with current revenues. This method recognizes the cost of maintaining inventories during periods of inflation and provides funds through tax savings to purchase replacement inventory. The historical LIFO earnings are therefore largely the same as computed under the current cost basis except for liquidation in 1980 of certain LIFO pools carried at 1979 costs which were lower than the costs of 1980 purchases and the required restoration of markdown and other valuation reserves in 1979.

Most of Merchandising's assets are nonmonetary, consisting of inventory and property and equipment. These assets are largely financed in the normal course of business by trade payables and other forms of debt, all monetary in nature. As a result, the net monetary position yields a gain of over $70 million in purchasing power as measured by the CPI-U in both 1980 and 1979. Conversely, the investment in nonmonetary assets produced a holding loss of over $56 million in both years caused by general inflation, as measured by the CPI-U, accelerating at a rate faster than the specific values of the assets involved.

Manufacturing

The Manufacturing Business also adopted the LIFO method of valuing inventories (domestic only) in 1979 to account for the impact of inflation in reported historical earnings. Therefore, the reported LIFO earnings approximate those calculated under both the constant and current cost basis except for inclusion of foreign inventories on a LIFO basis in cost of goods sold in both years and a liquidation of certain LIFO pools in 1980 carried at 1979 costs which were lower than the costs of 1980 purchases.

The current costs of inventories in 1980 substantially decreased from the 1979 current costs due primarily to a reduction in inventory levels. General inflation exceeded the increase in current costs in 1980 primarily because of the stabilization of costs in petro-based products, silver, and primary metals. In 1979 these inventory items experienced price increases in excess of the general inflation rate thereby causing current costs to exceed those as measured by the CPI-U Index.

Transportation—Rental and Leasing

Rental and Leasing's major assets are its revenue-earning vehicles which are nonmonetary in nature. These vehicles are financed through short and intermediate term debt which is monetary in nature. The result is that the Company is in a net monetary liability position thereby creating a gain in the purchasing power of the dollar.

In 1980, the Company experienced a rate of inflation based on the specific costs of its nonmonetary revenue-earning assets which closely paralleled the rate measured by the CPI-U. In 1979, the CPI-U inflation rate was substantially in excess of that experienced by the Company.

Five Year Data	**1980**	1979	1978	1977	1976
Net Sales and Revenues—					
Constant 1980 Average Millions of Dollars:					
Finance	**$ 959.6**	$ 956.5	$ 934.4	$ 921.0	$ 835.5
Merchandising	**4,462.4**	4,448.8	4,184.0	3,871.2	3,649.7
Manufacturing	**265.1**	278.8	293.3	284.6	298.4
Rental and Leasing	**366.6**	352.9	330.7	273.4	251.6
Cash Dividends Declared per Common Share:					
Historical Dollars	**$ 1.575**	$ 1.50	$ 1.375	$ 1.25	$ 1.15
Constant 1980 Average Dollars	**1.575**	1.70	1.74	1.70	1.66
Shareholders' Book Value per Common Share at Year End:					
Historical Dollars	**$ 25.25**	$ 24.06	$ 22.43	$ 20.82	$ 19.38
Constant 1980 Year End Dollars	**24.08**	25.83	27.28	27.61	27.44
Market Price per Common Share at Year End:					
Historical Dollars	**$ 16.25**	$ 18.13	$ 17.50	$ 18.25	$ 21.50
Constant 1980 Year End Dollars	**15.50**	19.46	21.29	24.20	30.44
Average CPI-U using average 1967 dollars as base of 100.0	**246.8**	217.4	195.4	181.5	170.5

Board of Directors

Donald C. Clark
President

Gilbert R. Ellis
Chairman of the Board and Chief Executive Officer

Thomas D. Flynn
Partner (Retired), Arthur Young & Company Certified Public Accountants

John T. Gurash
Chairman, CertainTeed Corporation Building Materials Chairman (Retired), INA Corporation

Mary J. Head
Director

Richard H. Headlee
President, Alexander Hamilton Life Insurance Company of America

William D. Hendry
President, Finance Division

Joseph W. James
Executive Vice President

Mitchell P. Kartalia
Chairman and Chief Executive Officer, Square D Company Electrical Equipment

Gordon P. Osler
Chairman, Stanton Pipes Limited Iron Pipe Manufacturing

Arthur E. Rasmussen
Director

George W. Rauch
Member of Hubachek & Kelly Ltd. Attorneys

James M. Tait
President, City Products Corporation

Robert C. Trow
President, King-Seeley Thermos Co.

Miller Upton
Director and Consultant

John C. Whitehead
Senior Partner, Goldman, Sachs & Co. Investment Bankers

Committees of the Board

Audit Committee
The Audit Committee reviews the Corporation's internal controls and financial reporting practices and the examinations made by the independent auditors. This committee consists entirely of outside directors.

T. D. Flynn, *Chairman*
G. P. Osler
M. Upton
M. J. Head

Compensation Committee
The Compensation Committee determines the salaries, bonuses and stock options for senior company management. This committee consists entirely of outside directors.

M. Upton, *Chairman*
J. T. Gurash
M. P. Kartalia

Executive Committee
During intervals between Board meetings, the Executive Committee may act for the Board.

G. R. Ellis, *Chairman*
D. C. Clark
J. T. Gurash
A. E. Rasmussen
G. W. Rauch

Finance Committee
The Finance Committee approves the sale of the Corporation's long-term debt securities, reviews the Corporation's annual financial statements and reviews dividend policy.

D. C. Clark, *Chairman*
G. R. Ellis
M. P. Kartalia
A. E. Rasmussen
G. W. Rauch
J. M. Tait

Nominating Committee
The Nominating Committee recommends candidates for Board membership, reviews Board size and composition and recommends changes in Board compensation.

J. T. Gurash, *Chairman*
G. R. Ellis
M. Upton

Management

Corporate Officers

Gilbert R. Ellis
Chairman of the Board and Chief Executive Officer

Donald C. Clark
President

Joseph W. James
Executive Vice President

Robert E. Bouma
Senior Vice President and General Counsel

James L. McCormick
Senior Vice President– Government and Public Affairs

John W. Ostrem
Senior Vice President– Planning and Development

James D. Pinkerton
Senior Vice President– Administration and Secretary

John B. Spring
Senior Vice President and Chief Financial Officer

Gaylen N. Larson
Group Vice President and Controller

Robert K. Strasser
Treasurer

Division Officers

Finance
Finance Division

William D. Hendry
President

Executive Vice Presidents
Buel Clifton
William J. Hunckler

Senior Vice Presidents
David E. Knudtsen
Paul A. Miller
Glenn R. Sanders
William B. Williams

Household Finance Corporation of Canada

Donald G. Bennett
President

Executive Vice President
Frank E. Silk

Alexander Hamilton Life Insurance Company of America

Richard H. Headlee
President

Executive Vice President
Albert C. Hassel

Merchandising
City Products Corporation

James M. Tait
President

Executive Vice President
Lawrence A. Del Santo

Senior Vice Presidents
Robert E. Potts
Roger E. Stangeland

Manufacturing
King-Seeley Thermos Co.

Robert C. Trow
President

Group Executive Vice Presidents
Gary G. Dillon
Jackson H. Sell

Transportation
National Car Rental System, Inc.

Bemiss A. Rolfs
President

Wien Air Alaska, Inc.

James J. Flood
President

Executive Vice President
Michael W. McKinnon

Corporate Information

Annual Meeting and Investor Inquiries

The annual meeting of stockholders will be held on May 6, 1981 at 9:30 a.m. at Household's International Headquarters. A formal notice of the meeting and proxy materials will be sent to shareholders about March 25, 1981.

Investor inquiries, including requests for copies of the Corporation's annual report on Form 10-K as filed with the Securities and Exchange Commission for the year 1980 and requests for information about the Dividend Reinvestment Service, should be addressed to the Secretary of the Corporation at Household's International Headquarters. Shareholder address changes and questions pertaining to shareholder accounts should be directed to the Stock Transfer Agent. Those forwarding stock certificates are advised to use registered mail.

Stock Transfer and Dividend Disbursing Agent

Harris Trust and Savings Bank
Stock Transfer Division
111 West Monroe Street
Chicago, Illinois 60690

In New York, deliver stock certificates for transfer to Harris' agent:
Schroder Trust Company
Stock Transfer Department, Level SC1
One State Street
New York, New York 10015

Agent for Automatic Dividend Reinvestment Service

Citibank, N.A.
Dividend Reinvestment Service NBG-1
Sort 5710
New York, New York 10043

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